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CAROLINA planning

Redefining Livability in the Urban Southeast

Featuring articles from:

Philip Hervey • Trip Pollard
Daniel A. Howe • Anne Scorza

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From the Editors:

No Shortage of Planning Challenges in NC

While a number of state and local governments in the Southeast (and particularly in North Carolina) are facing some of the largest budget shortfalls in the last fifty years, planners continue to face serious challenges in their local communities: stimulating economic development while growing smarter, creating economic opportunities in downtowns and inner cities while promoting a more livable environment, providing access to jobs while ensuring a range of transportation options for citizens. As one wave subsides, another emerges to threaten the delicate sand castles that planners attempt to build and manage.

This issue of the Carolina Planning Journal reviews a variety of those challenges. In a stagnant economy, stimulating inner-city entrepreneurial efforts have gained even more importance for local economic development. Anne Scorza gives an overview of this challenge and its implications in Charlotte and Greensboro, North Carolina. Charlotte's City Within A City program has generated much enthusiasm for replication in other parts of the state.

This issue features a pair of articles that address the "livability" problem. Philip Hervey takes a different look at Greensboro in the context of promoting a walkable downtown. The article compares downtown pedestrian-friendly design standards with recent projects, finding common ground for improvement. Another article, by Daniel Howe, examines smart growth issues in a highly controversial permit process for a mixed-use project in Raleigh. It provides a firsthand look at how smart growth and livability can take on very different meanings at the project level, and how planners frequently find themselves at the middle of such debates.

Promoting smart growth also carries regional implications. Trip Pollard, a researcher at the Southern Environmental Law Center, overviews the urban sprawl issue in the Southeast region. High population and economic growth have combined with unwieldy land use and transportation polices to generate a host of economic, social, and environmental problems. Fortunately, a number of reform options are available, although political and regulatory structures can limit their applicability.

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The Greensboro Public Library, front view. Photo courtesy of Philip Hervey.

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Promoting Pedestrian-Friendly Design in Downtown Redevelopment

This article examines how cities regulate downtown urban design and the effect of these approaches in shaping the built environment. The lack of urban design controls for building placement, elevation and other features can open the door for new development to be designed to accommodate the automobile at the expense of pedestrians. Downtown Greensboro, NC, a city that allows wide latitude in downtown design, has witnessed the development of downtown projects that diverge significantly from a pedestrian-oriented typology, resulting in downtown blocks that seem more appropriate for the suburbs than a dense, "walkable" downtown. The article looks at several cities to demonstrate how design standards and guidelines have raised the bar for downtown development - affecting the design of not only buildings but also streetscape improvements and public spaces. The article surveys downtown design standards in Denver, Austin, Durham, and Chapel Hill, and compares recent downtown projects in Greensboro with the goals of these standards. The author finds that development regulations in downtown Greensboro are too open-ended to ensure the built environment of the future puts "pedestrians first." New public buildings have not enhanced the pedestrian experience in downtown Greensboro to date.

Philip Hervey

INTRODUCTION

This article examines how cities regulate downtown urban design and the effect of these approaches in shaping the built environment. The lack of urban design controls for building placement, elevation and other features can open the door for new development to be designed to accommodate the automobile at the expense of pedestrians. Downtown Greensboro, NC, a city that allows wide latitude in downtown design, has witnessed the development of downtown projects that diverge significantly from a pedestrian-oriented typology, resulting in downtown blocks that seem more appropriate for the suburbs than a dense, "walkable" downtown. Examples from Greensboro, NC, include an office building set off the street by 200 feet and surrounded on three sides by parking lots, a new building with no windows at the sidewalk level, and a park with small benches oriented toward a surface parking lot. On the other hand; many cities across the United States consider downtown design as warranting careful scrutiny in order to preserve the pedestrian character of downtown streets. The article looks at several of these cities to show how design standards and guidelines have raised the bar for downtown development - affecting the design of not only buildings but also streetscape improvements and public spaces.

Philip Hervey received a Master of Regional Planning from the University of North Carolina at Chapel Hill in 2000. This article expands on his master's thesis, Design Guidelines for Revitalizing Downtown Durham, *switching the focus to downtown Greensboro, NC.*

DOWNTOWN GREENSBORO

Historic and Emerging Development Patterns

Greensboro has experienced significant changes over the past 30 to 40 years; the most dramatic from the implementation of urban renewal projects. These efforts included the removal of buildings, the reconfiguration of downtown streets, and the addition of parking in decks and surface parking lots throughout the Central Business District.

Today, Elm Street stands out as the most preserved area in the city core. On Elm St., many two-story and significantly taller buildings, including the 20-story Jefferson-Pilot building, abut the sidewalk, forming a continuous street wall for several blocks. Farther away from the Elm Street corridor to the east and west, downtown quickly becomes more auto-oriented, as the street wall disintegrates due to the infusion of large parking lots that have opened gaps in between buildings or consume all or a large portion of city blocks (see Figure 1).

Fringe downtown areas now are attracting new development. Major projects under way downtown include condominiums on Church Street, two blocks east of Elm Street, and a large building for the YMCA on the western edge of the Central Business District. Several buildings on Elm Street have been renovated in just the last year. A project that appears to be gathering momentum, with a nonprofit organization called Action Greensboro taking the lead, calls for the addition of a major downtown park and concert hall set amid mid-rise office buildings. The project would remove several small-scale buildings that provide storefront retail space.

A question that remains is whether new development – buildings as well as plazas, streetscape improvements and other projects in the public realm – will enhance people's experience of the built environment. In particular, will new development build on the traditional pattern that resulted in Elm Street? Or, alternatively, will the design of new projects be automobile-oriented — suburban — and impede

Figure 1. Aerial shows dense character of Elm Street and the preponderance of parking in the outer areas of Greensboro's Central Business District.

Street Type	Minimum Street Setback	Maximum Street Setback	Minimum Interior Setbacks	Maximum Height	Parking Requirements
Local street	0/30	None	0 feet; 5 feet if setback required	None	Exempt
Minor thoroughfare	0/35	None		None	Exempt
Major thoroughfare	0/45	None		None	Exempt

Table 1. Central Business District Zoning Standards: Greensboro

or discourage pedestrian activity? These are questions of urban design.

Urban Design: A New Concern?

Improving people's experience of downtown has emerged as an issue in a new planning initiative in downtown Greensboro. Action Greensboro has developed a center city development plan identifying areas for major initiatives, including a minor league ballpark and a concert hall/plaza on Elm Street (mentioned above). The plan seeks, among other objectives, "to create connected and pedestrian-friendly streets, transit, and parking." (Action Greensboro, 2002)

Development regulations for the Central Business District, however, provide the city limited influence over the design of new projects in the city core. The city has not adopted design guidelines for downtown development, leaving the zoning ordinance as the primary tool for regulating design. Yet this is a weak tool because each city's Central Business District zoning regulations require downtown projects to meet few if any building or site standards (see Table 1).

The lack of design standards means the city cannot assure that new development meets design objectives such as creating or preserving pedestrian-friendly streets. One common objective for promoting walkable streets is the creation of "outdoor rooms," requiring buildings to be built at or near the sidewalk forming the walls of the room. New traditional neighborhood development zoning districts reveal how zoning can be used to bring buildings to the street, as often TND districts establish "build-to" lines to ensure buildings are close to the street. Greensboro's Traditional Neighborhood zoning, for example, requires that buildings be no more than five feet from the curb – a restrictive standard compared with the city's Central Business District regulations.

One could argue that Greensboro's setback standards for the Central Business District are effectively discouraging designs that place a building at the edge of the sidewalk, especially on narrower streets. The City's required setbacks for the Central Business District are 35 feet for minor thoroughfares and 45 feet for major thoroughfares, measured from the street centerline (a zero foot minimum setback applies if the street is sufficiently wide). The standard means that buildings on narrower streets must be pushed back to meet the setback requirement. Buildings built off the sidewalk do not reflect the downtown's historic building pattern. Indeed, the buildings that line Elm Street – including the Woolworth's on South Elm,

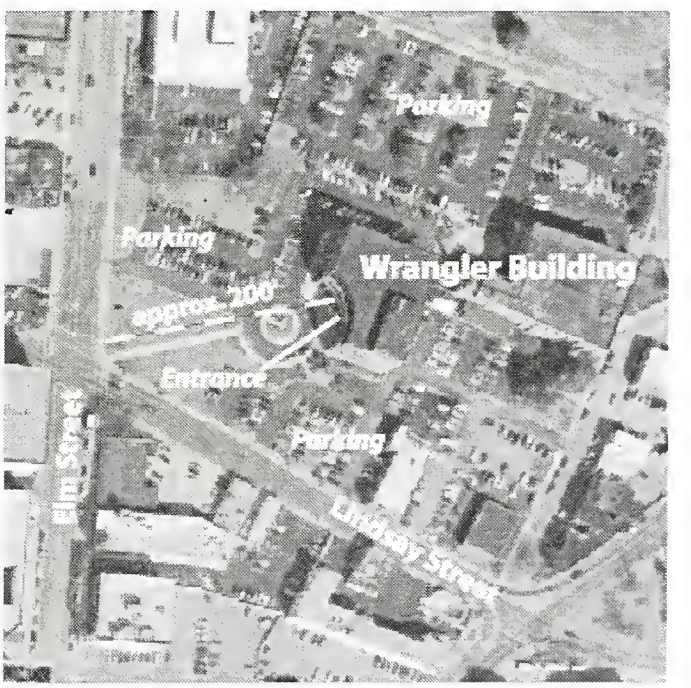

Figure 2. Aerial of Wrangler Building site.

the scene of the historic 1960 sit-in by the "Greensboro Four" – may be too close to the street to meet the City's setback requirement. Because of the depth of the setback standards, several recent downtown buildings proposed to be built up to the sidewalk required variances from the City before the development could proceed. (Averett, 2002)

On the other hand, an example of a building that easily met Greensboro's setback standards is the Wrangler Headquarters on North Elm Street (see Figure 2). The building, which has an Elm Street address, is situated roughly 200 feet from Elm Street, with surface parking areas in front and to the sides – a design that is more reminiscent of a suburban office park than downtown. The placement of the building off the street was "a matter of choice," according to the City's Subdivision Plans office. (Person, 2002)

REGULATING URBAN DESIGN

> *Urban design is intended to bring order, clarity and a pleasing harmony to the public realm of towns and cities. The public realm is best defined as the network of public spaces — streets, squares, plazas, parks and sidewalks — that comprise the connective tissue of spaces that citizens share in their daily lives. It is these public spaces that most clearly define a city.*
>
> *-City of Raleigh Urban Design Guidelines (April 2002)*

Cities are turning to the development review process, in particular by adopting downtown-specific zoning standards and design guidelines, to gain influence over downtown urban design. Cities eager to attract development to the downtown core may be reluctant to adopt more stringent requirements to preserve nebulous objectives such as "pedestrian scale" or "character." Yet without effective design standards, new development may be less than ideal. Instead of storefronts and attractive public spaces, downtown sidewalks could become a pedestrian no-man's land lined with any number of barriers: surface parking, dumpster pads, faceless building façades and drive-through establishments. An example showing the challenges a city can face in controlling urban design in the absence of zoning standards or design guidelines is the YMCA project in downtown Durham.

Urban Design Dilemma: The YMCA in Downtown Durham

Prior to the adoption of new Downtown Design Overlay Districts in 2002, the City had little influence over urban design for projects proposed in the Central Business District outside the Downtown Loop – a series of one-way streets that wrap around the historic downtown core.[1] For the Central Business District, the City's zoning ordinance specified no standards for even the most basic design issues, such as height and building placement. The zoning requirements were not necessarily a barrier to pedestrian-scale development as projects did not have to meet parking requirements or deep setback standards. However, the standards did little to promote a preferred building pattern; design options are an open slate.

An example of the design quandary is the YMCA building at Morgan and Foster Streets. Today the building is situated close to Morgan Street, with parking behind the building, hidden from the main street. An alternative scenario could have just as easily happened: a large parking lot on Morgan Street with the building toward the rear of the site (a striking contrast to its rather large neighbor across Foster Street), the Durham Centre office tower, and parking garage. Because of special circumstances, not development regulations, the YMCA in the end had redesigned the project building in a manner that was somewhat compatible with goals of the City's Comprehensive Plan.

In 1996, with Durham operating under the old zoning ordinance, the YMCA broke ground on a new 49,000-square-foot athletic center and a 13,000-square-foot day care center, a development that represented about $9 million in new downtown investment. The project also filled in a portion of a large surface parking lot. The site is in an important area – between the downtown core and a run-down area chosen for construction of Durham Central Park. One of the most significant issues for planners was the YMCA's initial plan to place the parking lot in front of the structures – in effect leaving a surface parking lot on Morgan Street.

THE DURHAM CENTRE

Everyone finds it annoying to search around a building ... looking for the proper entrance. When you know just where the entrance is, you don't have to bother thinking about it. It's automatic – you walk in, thinking about whatever's on your mind, looking at whatever catches your eye – you are not forced to pay attention to the environment simply to get around. Yet the entrance to many buildings is hard to find; they are not "automatic" in this sense.

-Christopher Alexander, et al, *A Pattern Language*, 1977

From a distance the 14-story Durham Centre stands out as one of the tallest structures that form the skyline of downtown Durham, N.C. The office tower at 300 West Morgan Street is the most prominent building on the northern edge of the city's Central Business District; nearby low-rise buildings include a hot dog business, a McDonald's and a tire franchise. Yet, from the vantage point of the Morgan Street sidewalk in front of the Durham Centre it is almost as if the building is not even there.

This is because the 220,000-square-foot building is situated not on the street but three stories above the sidewalk, atop a 780-space garage – an extreme example of a building entrance that, as Christopher Alexander writes, is not "automatic."

Consider the effect of elevating the office building above the street for pedestrians looking to get from Morgan Street to the front door. From the street, locating the front door to the office tower first requires finding the opening in the garage's masonry facade over which a dark blue sign says "330 W. Morgan St. building entrance." From there one is faced with a choice – either climb three flights of stairs or ride the elevator to the top of the deck. The "front" door leading into the building's lobby is there, as well as a large plaza.

While a hard-to-find building entrance may be problematic, a 1999 plan for downtown Durham highlights other concerns about elements of the Durham Centre design; in particular the effect of the parking garage that extends the length of a full city block. The Downtown Durham Master Plan includes a photo of the development as an example of "poorly designed ground-floor levels and imposing size" of a parking structure, concluding that the garage "provides little street-level interest for pedestrians" (Durham Office of Economic and Employment Development, 1999).

Figure 3. A sign next to the sidewalk in front of the YMCA building directs people to the rear entrance.

The City wanted to discourage this suburban-style design on this downtown lot that fronts a major street and is just across the street from the Durham Centre parking garage and tower.

The City may have had little influence over the site plan had the property been already zoned Central Business District, which, as noted above, contains no setbacks, height or building bulk standards. The YMCA project, though, required rezoning. The organization also wanted the City to close Seminary Street – which is at the rear of the site – so it could develop in the right of way. The City refused to close Seminary, but agreed to the rezoning. Prior to the vote the YMCA had indicated it would revise the site plan when it returned for site plan approval (Cruse, 2000). The new site plan placed the building on the corner of Foster and Morgan streets. Durham also gave the organization some right-of-way from Seminary Street, but the City obtained some of the development site to provide extra sidewalk width along Foster, enhancing a pedestrian connection with the proposed Central Park to the rear of the YMCA.

As a result, the YMCA– not a surface parking lot – now anchors a corner of a major downtown intersection and the access to Central Park to and from downtown was improved. However, the building entry is oriented toward the rear, not the main street, Morgan Street. A sign next to the sidewalk on Morgan Street directs people to the entrance at the rear (see Figure 3); large letters spelling "Exit" are on a glass door that opens onto Morgan.

The leverage the City had due to the required rezoning for the site provided the City additional influence over the site design that it otherwise would not have. Without the special needs of the YMCA, the City may not have been able to negotiate for a site plan City officials preferred. In short, the development regulations were not sufficient to ensure the development met the city's goals for downtown urban design.

Urban Design Tool: Zoning

Zoning can be a powerful regulatory device

for shaping the design of a downtown project. Zoning authority provides urban-design controls by enabling a city to dictate the bulk and height of a building, how it fits on a lot, and the uses allowed in the structure. The standards have a profound influence on the experience of an urban area, enabling cities to protect light and air circulation in a dense urban environment. Whether buildings are nestled to the sidewalk, as opposed to set back from the street with parking in front, affects the quality of the urban experience for pedestrians. Robin S. Cook Jr., in his book *Zoning for Downtown Urban Design*, writes that urban design is related to four important urban concerns: visual quality (aesthetics), functional qualities (movement of people and vehicles), environmental qualities (sun, air circulation and shade), and urban experience. Urban experience, Cook says,

> *is produced by the diversity of uses, the diversity of architecture and other visual stimuli, the amenities, open spaces or active and passive recreation, and the interaction of diverse people with each other in these complex surroundings. Complexity, surprise, diversity and activity are the essence of cities. The converse of this is exclusivity of function, which should be avoided (p. 13).*

Zoning typically is applied horizontally, dividing sections of a city into distinct zones, establishing permitted uses and specifying requirements for setbacks, lot width and parking spaces. Zoning also can be used at a finer level of detail to encourage or discourage certain uses at the building level. (Durham City-County Planning Department, 2002) Durham's Downtown Strategy, released in June 2002, discusses the potential of "vertical zoning" to encourage a vertical mix of uses by specifying the uses permitted depending on the building level. Zoning could require pedestrian-oriented uses at the street level, including shops, restaurants and other uses that attract the interest of those passing by. Examples of uses that are more appropriate for upper floors include law offices, apartment lobbies, brokerage offices and other spaces that involve little human activity.

Another zoning concept available to cities is "narrow use zoning," used as a means to encourage certain uses depending on the area. For example, Durham's Downtown Strategy recommends limiting uses in street-level space in the Downtown Plan's proposed entertainment corridor to restaurants, bars, small retail establishments and other businesses that likely operate into the evening hours.

Zoning also enables cities to use incentives, such as density bonuses or transfer of development rights, to influence urban design. Cook states that incentive zoning is the "cornerstone of urban-design control." He says that the city's control over density – the right to develop at a given intensity – provides cities with a "carrot" for negotiating with developers. One potential public benefit is requiring the developer to foot the cost of improvements to a public or semipublic area at the site, or contribute to a fund paying for off-site improvements. Also, the city has additional influence over the design of structures and how they fit in the context of the adjacent area.

Urban Design Tool: Design Guidelines

Design guidelines enable cities to exert additional influence over design by serving as a mechanism that extends the level of design review beyond setbacks, height restrictions and other basic requirements of a development ordinance. Design guidelines can address a city's urban design objectives for not only buildings, but also the design of parking structures and lots, public spaces and streetscape projects – affecting the design of public as well as private projects. Ilene Watson (2001) elaborates on how design guidelines compare with zoning:

> *Design guidelines provide a more detailed image than the broad goals of the comprehensive plan, yet they allow greater flexibility and creativity in addressing design issues than is typically found in a zoning bylaw. It is critical that any design guideline be clear enough to be understood by the public – not just by professional architects or planners. ... Creating clear and understandable guidelines is also important for ensuring that they are legally defensible.*

Guidelines can be written to encourage or require that projects meet various city objectives for the downtown built environment. For example, when Denver adopted an urban design review program for a historic section of its downtown, one of the city's objectives was the preservation and enhancement of the pedestrian-friendly character of streets. Many of Denver's guidelines were written to achieve this objective, including the requirement that buildings to be nestled against the sidewalk, as well as next to existing buildings, to preserve continuity of the "street wall" (City and County of Denver 1998). This is an important design consideration as studies show that in order for a downtown environment to function well for pedestrians, it must be compact (Cook).

Guidelines are more flexible than the standards dictated by zoning. Flexibility does not necessarily mean optional, as cities in the development review process can require developers to demonstrate why certain guidelines are not addressed. An important issue to resolve is the degree of specificity in the guidelines (Watson).

> *This is the dilemma between prescriptive guidelines which are regulatory and rigid, and descriptive guidelines which are focused on providing input into the design process and flexibility. Descriptive guidelines allow more creativity and are adaptable to the conditions of the site, but can be so open to interpretation that it can be difficult to refuse a development that shows only a minimal response to design issues. This type of guideline often indicates that a certain response to a design issue is "encouraged" or "discouraged." ... Prescriptive guidelines are less open to interpretation but can inhibit exploring various design options, and sometimes may even prohibit a good, creative design solution."*

Implementing Downtown Design Standards

It is a given that political considerations would affect how far a city would be able to go to incorporate new design standards in the review process. Moving from a non-regulatory environment to a restrictive system, such as the process used in Denver's Lower Downtown (LoDo) district, would be taking a big leap.

Denver has several layers of development review affecting how projects take shape in LoDo. Anyone proposing to develop real property in LoDo must consult the B7 Zone District Ordinance, the Denver Comprehensive Plan, the Neighborhood Plan, the Streetscape Plan, Ordinance 109, the Landmark Preservation Commission's *Design Guidelines for Lower Denver Landmarks and Landmark Districts* and supplementary guidelines to that document (City and County of Denver, 2000).

Overlay District	Maximum Building Height*	Residential Density Maximum/Minimum (units per acre)	Setbacks Maximum/Minimum (from back of curb)	Floor Area Ratio
DDO-1	300 feet or 20 stories, whichever is less	100 units / 12 units	20 feet / 12 feet**	Minimum: 2.5
DDO-2	80 feet or 6 stories, whichever is less	16 units / 8 units	20 feet / 12 feet**	Minimum: 1 Maximum: 4
DDO-3	45 feet or 3 stories, whichever is less	16 units / 8 units	20 feet / 12 feet**	Minimum: 1 Maximum: 2.5

*Development Review Board may approve building heights 10 percent above maximum. The Board of Adjustment may grant additional height or hear appeals as to DRB decisions regarding height.
**Above 20 feet, buildings may be built to property line; columns may be placed in the portion of any sidewalk located on private property to support any building above the 20-foot height.

Table 2. Downtown Design Overlay District Standards

Potentially less imposing options are illustrated in the recommendations for Austin's (Texas) program, which the Austin City Council adopted by resolution on May 18, 2000 (City of Austin Downtown Report, January 2002). The city identified several approaches for implementing the Downtown Austin Design Guidelines for new buildings, streetscape, parking decks, public spaces and other projects:

- Codify some of the guidelines in the city's development ordinances. An example is requiring in the development ordinance that retail space at street level be incorporated in parking structures in the downtown area.
- Establish some of the guidelines as city policy or departmental policy (such as planning or public works).
- Adopt the guidelines to apply them to the city's own civil or building projects.
- Incorporate the guidelines in matrices to evaluate public/private projects that seek public funding.
- Develop a system to provide opportunities for feedback, review and revision to see that the guidelines are working as hoped.
- Place the Austin Design Commission in an advisory role to review significant downtown projects for design guideline conformance.

In North Carolina, development review processes in Durham and Chapel Hill illustrate two approaches for implementing downtown design standards in the review stages.

Durham, N.C.

In the summer of 2002, Durham adopted new Downtown Design Overlay Districts in areas adjacent to the Downtown Loop in an effort to achieve design objectives in the Downtown Plan, such as active street frontage and pedestrian scale. Standards for the overlay districts (see Table 2) supercede those of the underlying zoning districts.

The overlay districts taper the development intensity for areas further away from the Central Business District core, and closer to the surrounding neighborhoods. Overall the standards are stringent relative to the Central Business District. The setbacks provide space for sidewalks and while preventing buildings from being set back far off the street. The minimum floor area ratio of 2.5 in the DDO-1 requires buildings to be of a substantial size, preventing low-scale development like a hot dog stand on Foster Street north of the Durham Centre.

Despite the increased regulations, the process is designed to be more streamlined because major projects are reviewed in a standard site plan review process overseen by the Development Review

1.2.4 Massing, Height, Scale & Rhythm

Goal:
Design buildings that are appropriately scaled for their function and with respect to their context.

Guidelines:

a. Building height should generally relate to and align with neighboring structures. Design one-story buildings with sufficient height to relate in scale to the surrounding structures.
b. Tall buildings are encouraged where they may provide visual interest, frame view corridors, or relate to larger scaled structures.
c. Where building height or massing vary greatly from the surroundings, compatibility may be achieved through fenestration and bay patterns and street level details.
d. Design buildings with an architectural and urban scale compatible with neighboring developments.
e. Incorporate upper story setbacks to reduce the apparent building mass, preserve the street level scale, and allow for sun access to adjacent buildings and public spaces.
f. Build upon the rhythms and proportions established by adjacent buildings while employing a palette of rhythms to avoid monotonous repetition.
g. Incorporate the vertical and horizontal lines of adjacent buildings, where appropriate.
h. Buildings should relate to the human scale through the use of architectural elements, proportion, materials, and surface articulation.

Standards:

i. Maintain consistent massing and perceived building height at the street level, regardless of the overall bulk or height of the building.
j. Avoid large unarticulated monolithic buildings. Break down the apparent scale of buildings exceeding 50 feet in length by the articulation of separate volumes into a coherent, hierarchical architectural composition.

Figure 4. Durham Design Manual example

Board instead of the major special use permit process. The review process consists of a Downtown Design Review Team that reviews development in the overlay districts for compliance with the design guidelines. The review team includes representatives from City staff, an appointee by the City Manager and two citizen appointees. Its recommendations are included in the planning staff report to the Development Review Board, which handles site plan approvals.

The Design Guidelines address buildings, public space and streetscape. The guidelines are organized by topic, such as "site" design, a related design issue or goal, followed by the applicable guidelines or standards. The manual states, "guidelines are suggested flexible ways to meet the stated goal, while standards are direct, concrete requirements for meeting that goal." (City and County of Durham, 2002) Figure 4 illustrates the approach.

One of the first test cases will be a proposal to build twin 27-story concrete and brick condominium buildings, replacing the dilapidated and vacant Heart of Durham Hotel (Curliss, 2002). The site is within the Downtown Design Overlay-1. The design of the 310-foot buildings, which would house 456 units, consists of concrete balconies and possibly prefabricated brick panels. The City Council approved the rezoning despite some misgivings. Mayor Bill Bell was quoted as saying of the rezoning vote: "I had a lot of trepidation. I don't want it to be a Cabrini Green...If that happens, I will have made a mistake."

Chapel Hill, N.C.

The Town of Chapel Hill's regulations and policies emphasize the street-edge in downtown development, enhancing pedestrians' experience of the built environment.

Development Ordinance Standards

For properties in the downtown Town Center zoning districts, the Chapel Hill Development Ordinance establishes height and development intensity standards (floor area ratios). Minimum setbacks are set at zero, allowing buildings to be up against the sidewalk. Table 3 summarizes the Town Center-2 district, which covers most of the downtown commercial core.

A standard that could be at odds with pedestrian-friendly design is the minimum parking requirement, which for most nonresidential uses is 1 space per 400 square feet of floor area. The residential requirement is 1 space per dwelling unit. While meeting this standard could require substantial off-street parking, other Town standards serve to minimize the impact of parking on the street edge. For the Town Center zoning districts, if a setback is provided between the building and the street, the setback cannot be used for parking. However, parking can be placed to the side of the building; depending on the size of the lot, the parking could create a significant gap in the street wall. This issue may be less of a concern in a downtown where

Height Restrictions Primary/Secondary [1]	Floor Area Ratio [2]	Minimum Lot Width	Street, Interior, Solar Setbacks	Parking Requirement
44' / 67' (nonresidential) [3] 44' / 90' (residential)	1.84 to 2.26 1.97 to 2.42	15 feet	0 feet	1 per 400 sq. ft. of floor area [4]

[1] The primary height limit is measured at the property lines; the secondary height limit standard is calculated as follows: for each foot into the interior, the building height can be increased by 1 foot up to the secondary height limit. For example, 10 feet in the interior of a lot, a building could be as tall as 54 feet.

[2] The permitted intensity can be higher if a proposed development meets bonus thresholds for affordable housing and/or mixed-use targets. The bonus for mixed-use development, which applies only to the Town Center, applies if at least 50 percent but not more than 75 percent of the floor area is contained in dwelling units, and the remainder is devoted to nonresidential uses.

[3] For nonresidential projects that qualify for the bonus described above, the secondary limit is increased to 90 feet.

[4] For general business uses, offices, banks and other similar uses. The residential parking requirement is one space per dwelling unit.

Table 3. Town Center-2 Height Restrictions, Intensity Regulations and Parking Requirements

Figure 5. *Top of the Hill building at the corner of East Franklin Street and South Columbia Avenue.*

lots ripe for redevelopment are relatively small. For cities such as Greensboro that have large parking lots and other "redevelopable" downtown tracts, this could be a significant issue because of the potential for large "side" surface parking lots.

Other options for meeting the parking requirement include making payments to the Town Parking Fund at $3,600 per required space, providing parking off-site within 1,200 feet of the building entrance, and submitting a Transportation Management Plan stating how alternative modes of transportation will be encouraged. Several recent projects have made use of the TMP option, which could include providing parking or a payment to the parking fund. Examples include providing bicycles for tenants at an apartment building, and installing showers and bicycle storage areas.

Note that the Development Ordinance has no maximum setback that would require buildings to be at or near the sidewalk, but economic considerations obviate the need for that in downtown Chapel Hill. Much of the existing street-level shops and restaurants on the town's busiest downtown street, Franklin Street, occupy storefronts that line the sidewalk; few businesses on Franklin provide on-site parking. A reason is that downtown businesses can feed off the significant pedestrian traffic generated by the presence of the adjacent University of North Carolina campus, popular transit routes, the base of downtown office workers, and Town-owned parking. The Town has recognized the importance of infill development where parking has eroded the pedestrian scale of the street; the Downtown Small Area Plan, for example, identifies "development opportunity" areas where the Town's goal is to encourage new development that creates street-level activity. A key area is West Rosemary Street, a parallel street to Franklin one block to the north; this area contains large University-owned surface parking lots, small-scale buildings, and buildings with on-site parking.

Special Use Permit Requirement

The Town of Chapel Hill under certain conditions

has increased input on the design of proposed downtown projects of a certain size. The Town requires nonresidential projects with 20,000 square feet or more floor space to obtain a Special Use Permit. Flexibility afforded by this review process enabled a major mixed-use project at a prominent downtown intersection to be built to the property lines, anchoring a corner once occupied by a gas station. In approving the Special Use Permit for the building, which houses the Top of the Hill restaurant (see Figure 5), the Council agreed to waive the Parking Fund payments, enabling the development to proceed without any off-street parking.

The Special Use Permit process includes review of the plans by the Community Design Commission, which can influence the project design. The process also requires a finding that the proposed development is in conformance with the Comprehensive Plan. For projects proposed in the Town Center, the Town checks for compliance with the Downtown Chapel Hill Small Area Plan, a component of the Comprehensive Plan.

The Downtown Small Area Plan has a supplemental 11-page Downtown Design Guidelines section as well as other design-related goals and objectives. The Design Guidelines are flexible, stating that development "should" meet certain objectives (Town of Chapel Hill, 2000). The major guidelines include:

- No more than two stories in height at the property line;
- Include alcoves and special treatments at entries;
- Storefront type windows adjacent to the sidewalk;
- Build at the property line; and,
- Use natural materials on the exteriors.

In cases where a project has less than 20,000 square feet of floor area, therefore not requiring a Special Use Permit, the Town lacks the procedural leverage to consider the Downtown Design Guidelines in the project design. For larger projects the guidelines can have an effect. The Franklin Hotel to be built on West Franklin Street is a good example of a case where the Design Guidelines played a factor in the ultimate outcome. During the public hearing on the Special Use Permit request, the architect contended the design met all of the major guidelines, including the building's two-story height at the street (Town of Chapel Hill, 2001). The guidelines may have helped reduce the scale of the project as the Town's Development Ordinance standards for the Town Center allow buildings to be as tall as four stories at the property line.

DEVELOPING AN URBAN DESIGN PROGRAM

> *Orienting buildings to public streets will encourage walking by providing easy pedestrian connections, by bringing activities and visually interesting features closer to the street and by providing safety through watchful eyes.*
>
> – Peter Calthorpe, The Next American Metropolis

This article contends that the adoption of design standards for development in downtown Greensboro – new zoning regulations coupled with design guidelines – could play a vital role shaping the built environment as new projects take over parking lots and other under-utilized downtown sites. While an urban design program could take many forms, some design standards should be considered as fundamental elements that must be included in a set of downtown design guidelines or new zoning standards.

A sampling of downtown design guidelines and zoning standards in three U.S. cities – included here in order to consider approaches outside North Carolina – provides an idea of what could be considered as fundamental issues to be addressed in regulating downtown design. Table 4 summarizes the design issues addressed in review processes adopted or proposed for downtown districts in Denver, Pittsburgh and Austin, Texas. To some degree, the cities each address these urban design elements: windows, building entries, "build-to" lines, height, and building step-backs for upper floors. Like Durham, each city also adopted the approach of tailoring design guidelines to specific districts within a downtown.

Standard	Austin	Denver (LoDo)	Pittsburgh
Buildings/General			
Floor-Area Ratio (FAR)	✓	✓	
Build to the Street/Sidewalk	✓	✓	✓
Height Limits	✓	✓	✓
Height Minimums	✓	✓	
Building Stepbacks Above Certain Level	✓	✓	✓
Mixed-Use Preferred	✓	✓	✓
Mixed-Use Target (Percentage) for Block	✓		
Transparency Requirement (Windows)	✓	✓	✓
Special Guidelines for Specific Areas	✓	✓	✓
Articulate Entries	✓	✓	✓
Variety of Scales	✓	✓	
Multiple Entries for Large Buildings	✓	✓	✓
Provide Cover for Pedestrians on Sidewalk	✓		
Guidelines on Building Materials	✓	✓	✓
Buildings Require Base, Middle, and Top		✓	
Encourage Public Art in Projects	✓	✓	✓
Parking			
Below-Grade Preferred	✓		
Screen Parking from Street	✓		✓
Mixed-Use Parking Structure Standards		✓	
High Quality Materials			✓
Vertically Oriented Architecture			✓
Plazas/Parks			
Locate in High-Use Areas	✓		
Microclimate Design (Breezes, Sun, Shade)	✓	✓	✓
Seating Standards	✓		✓
Locate Food Service in or Near Space	✓		
Ensure Good Pedestrian Access from Street	✓	✓	✓
Provide Visual Complexity in Design	✓		
Streetscape			
Manual Developed with Illustrated Streetscape Standards		✓	✓
Install Street Trees	✓	✓	✓
Provide Barriers Between Pedestrian, Street	✓		
Pedestrian Lighting	✓		✓
Paving		✓	✓
Lighting	✓	✓	✓
Street Furniture	✓	✓	✓

Table 4: *Comparison of Design Issues Addressed in Design Guidelines and Zoning in Downtown Austin, Denver and Pittsburgh*

The table also demonstrates that cities are extending the influence of design controls beyond issues such as architectural features or site orientation of a building; these cities also include standards for designing parking lots and garages, plazas and parks, and streetscape elements, including lighting, trees, signs and benches.

How Do Projects in Greensboro Stack Up?

Returning to Greensboro, how well do recent downtown projects adhere to other cities' downtown design standards? The following four projects are cited here as they reveal the variety of project design that has taken place in Greensboro and Durham following the heyday of urban renewal.

- **Greensboro *News & Record* newspaper complex** has just one entrance accessible from the public sidewalk, on Market Street. Surface parking lots are located on street corners, some portions behind a perimeter chain link fence that stretches along the public sidewalk. The site itself could be considered underdeveloped for a Central Business District location: in addition to the parking lots, a one-story building occupies a large portion of the site across the street from a new multi-modal transportation center.
- **Early Childhood Center** (late 1990s) is a one-story building set off the corner of Eugene Street and Friendly Avenue with a suburban-style free-standing sign placed next to the parking lot on Eugene Street. Just one door – with no door handle on the outside – opens onto the sidewalk. To reach the building's main entrance, which is oriented toward the parking lot, from the public sidewalk, a pedestrian would have to walk around a landscaped area into

Design Issue	*Design Guidelines Related to Design Issue*
News & Record 1. Lack of windows for large portion of building 2. One public entrance to main building 3. One-story cinderblock building 4. Surface parking lots (and chain link fences) on perimeter	1. Transparency specifications for including windows in street-level and upper-level portions of buildings (-) 2. Orientation and articulation of the public entrance (-) 3. Height/FAR minimums (-) 4. Build to property lines where feasible (-)
Early Childhood Center 1. Building set back off Eugene Street 2. Surface parking lot exposed to street 3. One-story building. 4. Day care not a pedestrian-oriented activity 5. Entrance oriented to parking lot	1. Build to property lines where feasible (-) 2. Parking screening standards (-) 3. Height/FAR minimum (-) 4. Zoning requirement that street-level space contain pedestrian-oriented use (-) 5. Orientation and articulation of the public entrance (-)
Greensboro's downtown library 1. Building built to sidewalk edge 2. Main entrance off Church Street sidewalk 3. Covered walkway on Church Street	1. Build to sidewalk edge(+) 2. Orient entrance to the street(+) 3. Include architectural features providing pedestrian protection from the elements(+)
Wrangler Building 1. Building built 200 feet off Elm Street 2. Parking exposed to street 3. Entrance oriented to sidewalk that extends through parking areas to Elm Street	1. Build to sidewalk edge (-) 2. Screen parking from street(-) 3. Orient entrance to the street (+/-)

(+) Appears to meet intent of guideline. (-) Does not meet intent of guideline.

Table 5: How Key Downtown Design Standards Relate to Projects in Greensboro

the driveway and through a pull-up area for vehicles.

- **Greensboro Public Library** (1998), built to the edge of Church Street two blocks north of the newspaper complex. The design of the city's 100,000-square-foot two-story library building meets several of the common design guidelines adopted by other cities discussed in this article. These features include an arcaded street-level façade that provides protection from the weather, and an articulated main building entrance.
- **The Wrangler building** (1994), despite its North Elm Street address written over its front entrance, sits back roughly 200 feet from the corner of North Elm and Bellemeade Streets. The building's surface parking lot fronts two streets, within which signs are posted warning people that the parking is for Wrangler employees and visitors only.

Table 5 describes how design elements for each project relate with building design guidelines adopted in other cities. With the possible exception of the Greensboro Public Library, the application of a typical set of design guidelines on these projects likely would have required redesigns to address issues such as building placement and orientation and design of the building entrance.

The table, which lists only a few key features and related standards, suggests that the application of typical urban design standards would have required significant alteration to building design and the site plan. Compliance with the standards is no simple task. For example, simply moving the Wrangler building to Elm Street would still leave a large portion of the site covered by surface parking. Putting the parking in a well-designed deck would appear to be a better solution; however, this would entail significantly higher projects costs for a building of this size.

Greensboro does not have to look far for potential design standards that would promote pedestrian-friendly development in the Central Business District. The City's Traditional Neighborhood District has been introduced in Southside, a neotraditional development under construction just south of railroad tracks from the downtown core. The zoning district includes Design Guidelines for promoting "human scale" design, including:

- Buildings that avoid long, monotonous,

Figure 6. YMCA center under construction in downtown Greensboro (Spring 2002).

uninterrupted walls or roof planes.

- Commercial structures that incorporate awnings or arcades, which may project over the sidewalk into the street right-of-way with city approval;
- Ground floor retail, service, restaurant, and other commercial uses with display windows on a minimum of fifty percent of the first floor front to provide views into the interior of buildings;
- Entrances and storefronts facing the street. (City of Greensboro, 2002)

Though tailored for "new urbanist" projects, these standards are not necessarily inappropriate for the CBD, as other cities – as this article has shown – have adopted similar urban design standards for their downtown cores.

CONCLUSION

In recent months, workers have been erecting a large YMCA facility at the corner of Spring Street and Market Street in downtown Greensboro, across Market Street from a Firestone tire dealer and a Hardee's Restaurant. With each passing week the building took shape, filling much of a city block that is wrapped on three sides by one-way streets. During the early stages of construction passersby could look through the building's incomplete exterior walls and watch the work going on inside.

As the building neared completion workers filled in the gaps in the façade. The second story now features bands of windows that wrap around much of the building. The street level, where people would be walking by, features one main entrance but no windows – essentially a blank façade. To some degree, a design that seals the building from the street makes sense given the fast-moving traffic on the one-way streets outside and the suburban character across Market Street where the Hardee's and Firestone buildings are situated in surface parking lots. Important issues clearly extend beyond the site plan and building design - including street width and the provision of on-street parking, street trees and benches.

The cumulative effect of buildings that are closed off to the street, providing little street-level interest from the vantage point of the sidewalk, means these downtown blocks as they become developed will still be far removed from achieving the character of Greensboro's Elm Street. These areas will fail to achieve a "walkable" city form other cities are striving for in adopting design guidelines for their downtowns.

In Pittsburgh, the city's over-arching goal of its urban design program is "pedestrians first." (City of Pittsburgh, 1998a) In other words, develop for people, not automobiles. It is easy to picture an urban environment that fits Pittsburgh's ideal: Buildings, not parking lots, fronting streets; storefront windows, not solid walls, along the sidewalk; accessible plazas with adequate seating, sun, shade, and air circulation; buildings of a scale that enhances, not overwhelms, the street environment.

Development regulations in downtown Greensboro are too open-ended to ensure the built environment of the future puts "pedestrians first." In fact, the recent projects reviewed in this article suggest that new buildings may not enhance the pedestrian experience in each downtown. The implications are significant: A downtown that is inviting to pedestrians is a downtown that creates a lively and diverse atmosphere that can draw people away from the auto-oriented suburbs.

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NOTES

[1] Projects in the Historic District within the Loop require a Certificate of Appropriateness as per Historic District requirements. The Downtown Design Overlay District was not added to this area.

Growth in the Southeast: Trends and Choices

Population and economic growth in the Southeastern United States over the last decade has generated large-scale land consumption and exacerbated traffic congestion, according to this article. Air pollution has risen, affecting human health and nearby forest ecosystems. Water quality and quantity has declined, and the region is losing a tremendous amount of biodiversity and habitat. The article reviews the fiscal and economic costs of sprawl, as well as its' impacts on equity within urban areas. Throughout the region, voters are demonstrating their support for smart growth and community livability measures. The article later reviews opportunities for land use and transportation reform in the Southeast, as well as barriers that prevent the adoption of more focused policies.

Trip Pollard

Introduction

The Southeast is growing at a phenomenal rate. Although this growth has brought many benefits to the region, such as more jobs and higher incomes, the explosive, low-density land use development that is transforming the Southeast is linked to an increasing array of environmental, health, economic, and social problems. Public awareness and concern with the problems relating to sprawl have increased, creating pressure for change and significant opportunities to promote new approaches that can capture the benefits of growth while reducing the accompanying costs.

This article will examine some of the key trends, issues, and opportunities for reform in seven southeastern states – Alabama, Georgia, Florida, North Carolina, South Carolina, Tennessee, and Virginia.[1]

General Growth Trends

Population Growth

The Southeast is experiencing tremendous population growth. Between 1990 and 2000, population in the region increased by over 8.8 million, an almost 20 percent increase that far outpaced the 13.1 percent increase nationwide during the past decade. Five of the 15 fastest growing states were in the Southeast (Georgia, Florida, North Carolina, South Carolina, and Tennessee).[2]

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	Census Population		*Change, 1990 to 2000*	
	April 1, 1990	**April 1, 2000**	**Number**	**Percent**
Georgia	6,478,216	8,186,453	1,708,237	26.4
Florida	12,937,926	15,982,378	3,044,452	23.5
North Carolina	6,628,637	8,049,313	1,420,676	21.4
Tennessee	4,877,185	5,689,283	812,098	16.7
South Carolina	3,486,703	4,012,012	525,309	15.1
Virginia	6,187,358	7,078,515	891,157	14.4
Alabama	4,040,587	4,447,100	406,513	10.1
Region	**44,636,612**	**53,445,054**	**8,808,442**	**19.7**

Table 1. *Population growth in the Southeast United States.*

For at least the next two decades, population increases in the Southeast are projected to far outpace the national average.

Economic Growth

The Southeast has also experienced dramatic economic growth. Although the economy recently has weakened nationwide, the Southeast has seen a significant boost in jobs and personal income in recent decades, and unemployment has tended to be below the national average.[3] Atlanta, the region's largest metropolitan area, added over 670,000 new jobs and increased per capita income by over 60 percent during the past decade.[4]

Another significant trend is the fact that new jobs are being created most rapidly in suburban areas throughout the region. This trend has a major impact on urban form and on the ability of job seekers in urban neighborhoods to find employment.

Although jobs are increasing at a faster pace in suburban areas, the majority of jobs are still located relatively near the center city in most metropolitan areas in the Southeast. Atlanta and Tampa, however, are two cities showing a high degree of "job sprawl," with most jobs located over ten miles from the central business district.[5] As jobs become less centrally located, more land is consumed and auto use becomes a necessity as transit, walking, and bicycling become impractical.

Land Development Patterns

Although population and economic trends

State	Change in Total Land Developed 1982-1992 (1000s of Acres)	Change in Total Land Developed 1992-1997 (1000s of Acres)
Georgia	851.9	738.4
Florida	825.2	1088.2
North Carolina	506.6	933.1
Tennessee	401.9	464.0
South Carolina	362.0	386.4
Virginia	343.5	441.0
Alabama	315.3	320.4
Region	**3606.4**	**4371.5**

Table 2. *Land development patterns in the Southeast United States.*

affect growth and development, the problem is less that the Southeast is growing than how it is growing. Scattered, highly land-consumptive development patterns are typical in every state in the region.

The amount of land being developed in the Southeast is staggering. Between 1992 and 1997, over 3.6 million acres were developed in the region,[6] an average of over 720,000 acres per year, or almost 2,000 acres per day. During the preceding ten years, over 4.37 million additional acres were developed.

The Southeast is the most rapidly developing region of the country. Of the ten states where the most land was developed between 1992 and 1997, half are in the Southeast. The only states in this region not in the top ten – Virginia and Alabama – ranked 11th and 13th nationally in total land consumption.

Moreover, the rate of land development is accelerating in every state in the region.

This accelerating growth has caused a massive loss of precious resources, such as productive farmland and forest land, wetlands, and wildlife habitat. Over 20 percent of the land developed between 1992 and 1997 in Georgia and South Carolina was considered to be prime farmland, and over 30 percent of the land developed in Alabama, North Carolina, Tennessee, and Virginia during this period was prime farmland.

"Top Ten" States - Total Acres of Land Developed 1992-1997

1	Texas
2	Georgia
3	Florida
4	California
5	Pennsylvania
6	North Carolina
7	Tennessee
8	Ohio
9	Michigan
10	South Carolina

Table 3. *Top ten states by acres of land developed, 1992-1997.*

This phenomenal rate of land conversion is far outpacing even the rapid population growth of the region, and development density is decreasing as the Southeast sprawls away from existing communities.[7] In the Charleston area, for example,

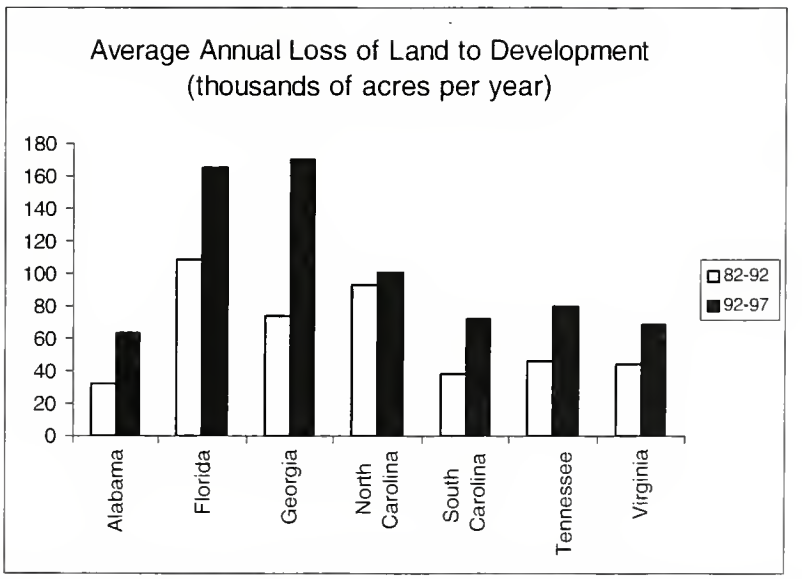

Figure 1. *Average annual loss of land to development (thousands of acres per year).*

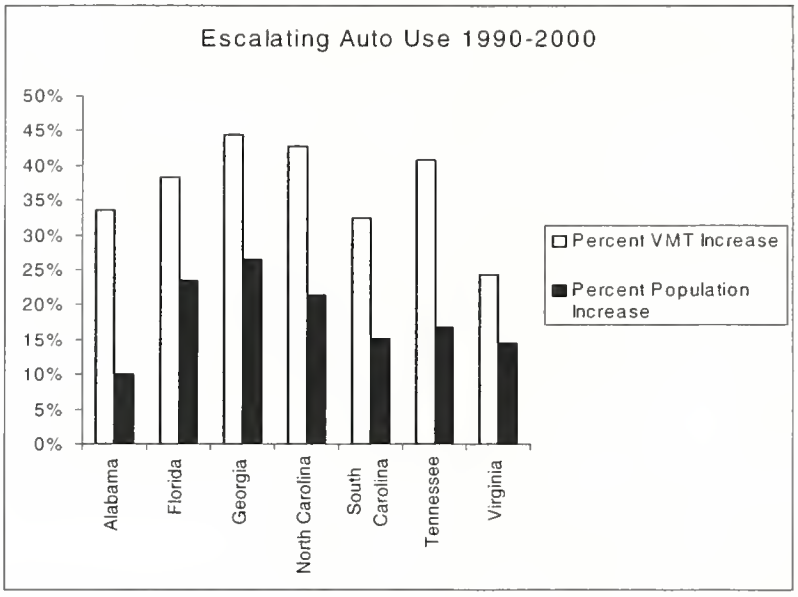

Figure 2. *Increase in population and vehicle miles traveled (VMT), 1990-2000.*

between 1973 and 1994 the population increased by 41 percent while the urban area expanded by 255 percent.[8] A recent national report found Atlanta to be the most sprawling of 13 major cities studied, with the lowest density of any major city.[9]

Transportation

As residences, jobs, and activities spread further apart, automobile use escalates. In 2000, people in the Southeast drove over 589 billion miles; an average of over 1.6 billion miles per day.[10]

The number of miles people drive is increasing dramatically in the Southeast, far outstripping growth in both population and the number of drivers.

As a result, the Southeast has the highest driving rates in the country. Three of the five largest metro areas with the highest amount of average driving per person in the United States are in the region, as are four of the five middle-sized metro areas.[11]

Traffic congestion and commutes are increasing rapidly as well. Atlanta has now become the second most congested city in the country, and congestion there is increasing faster than in any other major city in the country.[12] The average amount of time drivers in Atlanta spent stuck in traffic more than doubled between 1992 and 1999 – from 25 to 53 hours per person per year; and in 1999 over 150 million hours were lost due to delay. Drivers in Washington, Miami, Nashville, and Orlando experienced annual delay of over 40 hours per person in 1999.

Congestion is rising despite aggressive road building programs in southeastern states. While new highways can provide temporary traffic relief, evidence is growing that it is not possible to build our way out of congestion. New roads actually generate more travel, both by opening new areas to development and by leading motorists to change their behavior, such as encouraging people to drive rather than use alternative means of transportation.[13]

Although recent changes to federal transportation law have increased funding available for transportation alternatives, transportation programs in the Southeast remain heavily weighted towards building and expanding roads as the solution to virtually every transportation problem. State departments of transportation and metropolitan planning organizations in most areas in the Southeast typically give little consideration

to the consequences of roads or to alternative transportation improvements, such as better road design and mass transit.

A recent report by the Surface Transportation Policy Project examined how states have spent the federal transportation funds they receive.[14] It found that three states in the Southeast (Georgia, South Carolina, and Tennessee) are "behind the times"- failing to pursue many transportation alternatives. Two states (Alabama and North Carolina) were ranked as "offering few options," and only two states (Florida and Virginia) was found to have even mixed results, and ranked as "middle of the road." No state in the region was ranked as "open to change."

Impacts of Current Trends

The land use and transportation trends transforming the Southeast have brought a host of unintended economic, health, social, and environmental consequences. Almost every community in the region has experienced some of the harm automobile-dependent, sprawling development can bring. This section outlines some of the most serious problems accompanying sprawl.

Harm to Health and the Environment

The dramatic increase in driving in the Southeast means more air pollution.[15] Motor vehicles are a major source of pollutants such as carbon monoxide and smog-causing nitrogen oxides and volatile organic compounds. Overall, although ozone levels are dropping in most areas of the country, they are rising in the Southeast.

These pollutants lead to a range of health and environmental harms, including premature death, lung tissue damage, asthma attacks, visibility impairment, and forest damage. Millions of people in the region face additional health risks from excessive air pollution. A recent report from the American Lung Association found that ten of the 25 most ozone-polluted cities and nine of the 25 most polluted counties in the country are in the Southeast.[16] The American Lung Association also gave a failing grade to the air quality of over 90 counties in the region due to ozone pollution. The impact of ozone on children's health is a source of particular concern. A recent study found that emergency room visits by children for asthma fell over 40 percent in Atlanta during the 1996 Summer Olympics when vehicle use decreased and transit

Large Metro Areas with Highest Daily Vehicle Miles of Travel Per Capita

Rank	Federal-Aid Urbanized Area	Per Capita DVMT
1	Nashville	37.6
2	Houston	36.9
3	Birmingham	34.8
4	Atlanta	33.8
5	Indianapolis	32.1

Mid-Size Metro Areas with Highest Daily Vehicle Miles of Travel Per Capita

Rank	Federal-Aid Urbanized Area	Per Capita DVMT
1	Knoxville	35.6
2	Greensboro	34.3
3	Winston-Salem	31.7
4(tie)	Durham	31.4
4(tie)	Harrisburg PA	31.4

Table 4. *Metro areas with highest per capita vehicle miles traveled (VMT).*

use rose in the region.[17]

A new report by the federal Centers for Disease Control (CDC) links sprawl to other public health problems.[18] The report found that by increasing the distances between activities, and thereby discouraging walking, sprawl increases obesity. There is again particular concern with the impact on children's health. Childhood obesity is skyrocketing, due in part to the fact that in sprawling, auto-dependent communities, children must be chauffeured almost everywhere. The CDC report also concludes that sprawl poses a significant safety risk, increasing pedestrian-auto traffic accidents.

Current land use and transportation patterns are also closely tied to numerous environmental problems. In addition to ozone pollution, motor vehicles emissions are a primary contributor to global climate change, which could have disastrous environmental and economic impacts. The average vehicle emits more than one pound of carbon dioxide per mile,[19] and total carbon dioxide emissions from transportation are increasing nationwide.[20]

Water quality and quantity problems are other serious problems associated with sprawl. Buildings, roads, and parking lots are replacing millions of acres of forests, farms, and wetlands in the Southeast that would otherwise filter water. Further, development dramatically increases the amount of impervious surfaces, which in turn can increase the volume of runoff of pollutants, increase erosion, and slow groundwater replenishment, depleting water supplies. A one-acre parking lot, for example, can create 16 times more runoff than a meadow of the same size.[21] The cumulative impacts of sprawl can be devastating. For example, the Catawba River in North Carolina and South Carolina has been identified as one of the most endangered rivers in the country due to erosion and runoff from explosive development in the Charlotte area, where approximately 40 acres of green space is developed daily.[22]

In addition, land cleared for roads and development can deposit silt in rivers and streams, and road use and maintenance can introduce pollutants such as herbicides into the water. For example, the Tennessee Department of Environment and Conservation found that sediment from the construction of the southern portion of State Route 840 – a ring road outside of Nashville currently under construction – has damaged eight streams and creeks, including sediment deposits of a foot or more in some cases.[23]

The list of environmental damage caused by the Southeast's land use and transportation patterns also includes loss of the region's tremendous biological diversity, habitat fragmentation, noise pollution, and visual blight. In short, sprawl is perhaps the single greatest threat to the region's environment.

Community Wealth and Health

Land use and transportation patterns have a variety of impacts on community involvement and connectedness. As land uses spread further and further apart and a car becomes necessary for performing many activities, children, the elderly, and disabled individuals have greater difficulty in becoming active members of the community. The time we spend commuting and stuck in traffic also reduces involvement in community activities. Moreover, studies have shown that people who live on streets with higher traffic levels know far fewer of their neighbors than do people on streets with lower traffic.[24] Further, a recent report prepared for the Community Foundation of Greater Atlanta concluded that Atlanta's "rapid growth may constrain the development of the area's social capital. As would be expected, newcomers to Atlanta report lower levels of involvement in civic activities, formal associations, charitable giving, and faith-based engagement.[25]"

Fiscal and Economic Costs

Sprawl's price tag is tremendous and it is rising, as is the threat it poses to successful long-term economic development.

There is increasing evidence, for example, that

the fiscal impact of sprawl development patterns harms many localities and burdens taxpayers.[26] Proposed developments are frequently justified on the basis of the tax revenues they will bring to a city or county. All too often, however, localities are faced with the reality that growth does not pay for itself and can lead to higher tax rates or higher debt. Although new development does bring new tax revenues, far-flung development often does not generate enough taxes to pay for the new roads, water lines, schools, and other infrastructure and services that need to be provided. At the same time, infrastructure that taxpayers have already paid for may be underused or abandoned as development spreads outward. Providing the infrastructure to serve growth can also strain state budgets. A study in South Carolina showed that directing future development to existing areas would make use of infrastructure already in place, saving the state $2.7 billion over 20 years.[27]

Current land use and transportation trends also threaten the long-term health of regional and local economies. A recent national report found that business leaders "are recognizing that quality of life directly affects economic prosperity, and that sprawl threatens quality of life in many communities.[28]" For one thing, traffic congestion and long commutes make an area a much less desirable place to live and work. Moreover, businesses and individuals are often forced to pay high prices for congestion; in 1999, congestion costs were over $2.6 billion in Atlanta and almost $1.5 billion in Miami.[29] The typical southern household spends $6,863 per year on transportation, with $6,577 going toward automobiles.[30] This outlay is second only to housing expenditures, and is more than families in the region spend on health care and food *combined*.[31]

The economic vitality of existing rural communities, small towns, urban neighborhoods – even older suburbs – also suffers under sprawl. Not only does sprawl tend to lead to increased property taxes, but it also saps the vitality of existing communities since investment, jobs, and residents are lured to outlying areas. Rural economies can further suffer as productive farmland is converted and scenic landscapes, historic areas, and recreation areas that often attract vital tourist spending are harmed or destroyed.

Equity Problems

The burdens and benefits of land use and transportation patterns are not distributed equally. As noted above, sprawl development drives up transportation costs. Lower income families, however, spend the highest percentage of their income on transportation. According to the Bureau of Labor Statistics' Consumer Expenditure Survey, households with income between $10,000 and 14,999, for example, spend $3,697 per year on transportation – a quarter to more than a third of their income (24 to 37%), on average.[32] In contrast, families with income of $30,000 to 39,999 spend an average of $6973 per year on transportation (only 17 to 23%) and upper income households earning $70,000 or more spend an average of $13,363 on transportation (a fraction of one percent up to 19%, on average).

In addition, sprawl tends to be both a symptom and a cause of economic and social polarization, helping to concentrate poverty in cities and drawing people and wealth to the suburbs. This concentration in turn leads both to the increased need for local services within cities and to the erosion of the tax base necessary to support these needs, spurring further flight of wealthier households. Myron Orfield has documented this polarization in Atlanta, as well as the similar pattern of economic decline that ultimately tends to overtake inner suburbs and satellite cities that cannot compete as wealthier residents move to newer suburbs.[33] His study also highlights inequities in infrastructure investment patterns, showing that the majority of highway spending has gone to wealthier suburban areas, helping them attract an even larger share of the region's jobs. In addition to furthering regional polarization, as infrastructure investments help to draw more jobs to outer suburbs it is increasingly difficult for low-income individuals residing in the central city to find and to reach work. This problem is exacerbated by the relative lack of investment in transportation

alternatives, and has a disproportionate impact on minorities.

Changing Public Attitudes Toward Sprawl

The mounting problems accompanying sprawl in the Southeast have led to increasing public concern about the consequences of current growth patterns. A Florida poll, for example, found that 90 percent of voters support managing or limiting growth.[34] In a North Carolina poll, almost 77 percent of respondents felt "strongly" or "somewhat strongly" that the state "should impose much stricter environmental controls on developers and construction businesses.[35]" In addition, polls in numerous areas throughout the region have identified traffic congestion as one of the most pressing issues facing localities.

The deepening concern about sprawl is accompanied by growing support for promoting smart growth and community livability measures such as preserving open space and revitalizing existing communities. In a nationwide poll conducted for Smart Growth America, 85 percent of the people surveyed supported increasing coordination among towns to plan for growth, and 76 percent supported state governments giving funding priority to maintaining schools, roads, and other services in existing communities rather than encouraging development in the countryside.[36] Further, Federal Highway Administration surveys have also shown that the public is much more likely to support expanding public transportation or building new bikeways and sidewalks than to support new highways.[37]

These opinions are increasingly evident at the ballot box. Growth issues are figuring prominently in more local races and measures in the region. In November 2000, for example, dozens of measures involving a range of issues relating to growth (such as economic development and revitalization, open space, and transportation) were on local ballots in the Southeast.[38] Most of these measures were on the ballot in Florida, Georgia, and North Carolina; most measures dealt with funds for preservation of parks and open space, and almost all of these measures passed. In addition, several measures provided funding for improving transportation choices; Atlanta, for example passed two bond measures totaling $74.5 million to improve the pedestrian and transit environment.

Opportunities for Reform

Sprawl is not inevitable. A host of public subsidies, regulations, and decisions typically make it cheaper and easier to develop on the fringes of existing communities. For example, a primary factor fueling explosive growth in the Southeast has been the public investment in infrastructure, such as roads, and water and sewer lines; as long as taxpayers cover these costs, there is little incentive to build where infrastructure already exists. In addition, planning and zoning policies

State	Number of Land Trusts	Total Acres Protected
Alabama	4	33,516
Florida	23	64,456
Georgia	17	36,864
North Carolina	26	112,141
South Carolina	18	97,573
Tennessee	15	43,734
Virginia	17	236,160
Region	**120**	**624,454**

Table 5. Land trusts and acres protected by state.

that require large lots and the geographic separation of commercial and residential uses encourage scattered development and driving.

There are ample opportunities for reform. Although most of the Southeast is still in the early stages of addressing sprawl-related problems, and no state or locality has adopted a comprehensive set of policy reforms to promote smarter growth, there have been significant accomplishments throughout much of the region.

It is beyond the scope of this article to provide a comprehensive inventory of the many innovative tools and strategies states and communities are using to better guide growth and promote more sustainable transportation.[39] This section provides an overview of some of the key recent accomplishments in the Southeast, which highlight some of the more promising strategies to promote smarter growth and community livability.

Land Conservation

There are a number of tools available to protect rural, natural, and historic areas from the explosive development sweeping the region. These tools include establishing parks and greenways and conserving forest, farmland, and other forms of open space – whether through acquisition, purchasing development rights, or using conservation easements to limit development that threatens public resources such as clean water and green space. For example, over 1,200 private land trusts nationwide protect more than 4.7 million acres. In the Southeast, there are120 land trusts, and they are estimated to have protected almost 625,000 acres.[40]

In addition, Florida has the nation's largest land acquisition program. Since 1990, over one million acres have been protected. In 1999, this program was extended for 10 years with an annual funding level of $300 million to acquire, protect, and restore open space, urban recreation land, and greenways. Other states in the region have recently taken action on open space funding as well. In Georgia, Governor Barnes successfully pushed for the Greenspace Trust Fund that will provide fast-growing areas $30 million in grants if they develop greenspace plans that protect 20 percent of their land.

Increasing Transportation Choices

As discussed above, transportation programs in southeastern states are heavily weighted towards building and expanding roads, virtually ignoring transit, bicycling, walking, and other transportation alternatives. This road-centered approach has been a major factor fueling sprawl in the region since new roads can largely determine the pace, location, and scale of growth, opening new areas to development and subsidizing sprawl.

Some significant reforms have begun the move toward a more balanced transportation approach that offers a variety of transportation choices, providing meaningful alternatives to having to drive everywhere. For example, Charlotte voters approved a referendum in 1998 adopting a half-cent sales tax to fund a 25-year plan that includes $1 billion in transit improvements. In Atlanta, the new 25-year long range transportation plan calls for devoting 55 percent of funds to transit, although there are substantial questions regarding whether this much funding will actually be spent on transit. In addition, although still a small percentage of transportation funding, there has been a surge in public investment in bicycle and pedestrian projects throughout the region, largely as a result of federal funding changes. The Birmingham area, for example, is implementing a $15 million comprehensive bicycle and pedestrian plan.

Building Better Communities

Efforts to revitalize existing communities and to promote more compact patterns of new development with a mixture of commercial and residential land uses are a cornerstone of smarter growth. These efforts have the potential to reduce the pressure on undeveloped lands by providing attractive alternatives for residences and

businesses, to decrease travel times and make transportation alternatives more practical by locating homes closer to jobs and other activities, and to reduce the fiscal impacts of growth by encouraging development in areas already served by roads, schools, water and sewer.[41] Current public subsidies and regulations, however, typically make it cheaper and easier for developers to build on undeveloped sites on the fringes of existing communities.

Redirecting Infrastructure Investments

One of the most promising opportunities for states and localities to guide growth is to redirect public infrastructure spending to serve existing communities and designated growth areas. For example, road funds can be reprioritized using a "fix it first" approach that devotes a larger portion of road spending to maintaining existing roads and bridges than to new construction that opens previously rural areas to development. In addition, numerous localities have designated growth areas that delineate where capital improvements and infrastructure investment will be made. The City of Virginia Beach, for example, has adopted a "Green Line" that shapes the city's capital improvement and land use planning and has resulted in the lion's share of growth occurring within the designated area.

Providing Financial Incentives

The power of the purse is also being used to provide financial incentives – such as tax credits, tax abatements, loans, and grants – to encourage rehabilitation and reuse of existing structures and properties that have already been developed. Historic preservation incentives are a common and effective tool adopted by many states and localities in the region. In North Carolina, for example, developers estimated that the majority of the projects completed under a tax credit program for rehabilitation of certain types of historic buildings would not have been undertaken without such a credit.[42] In addition, many states and localities have adopted incentives to encourage redevelopment of old industrial sites, commonly referred to as "brownfields." Florida, for instance, offers a tax credit that provides an eligible applicant up to 35 percent of the costs of a voluntary cleanup activity integral to rehabilitating a state-designated brownfields area.

Removing Regulatory Barriers

In addition to reorienting infrastructure expenditures and providing financial incentives to guide development, a number of states and localities in the Southeast have begun to review and revise regulatory provisions that inhibit more sensible growth. Planning and zoning policies, for instance, typically segregate commercial and residential uses into different geographic areas, practically requiring people to drive to conduct almost any activity. Requiring large lot sizes, large setbacks or wide street widths are some of the other measures that effectively mandate automobile-dependent, land consumptive development patterns. In most localities in the Southeast, it would be illegal to build the more compact, mixed-use development that prevailed in this region until the past few decades and characterizes many of the region's most attractive and vibrant older communities.

A growing number of states and localities throughout the Southeast have revised regulatory provisions to eliminate such barriers to more compact, traditional neighborhood development. For example, an overlay district was adopted in Port Royal, South Carolina to promote a mixture of land uses, infill development, and pedestrian-friendly street improvements. Three towns north of Charlotte – Huntersville, Davidson, and Cornelius – have overhauled their development regulations, adopting similar provisions to promote more traditional development. Although fewer steps have been taken to remove policy obstacles to smarter growth at the state level, there have been some advances. North Carolina, for example, recently adopted a pilot program that allows certain local governments to use an alternative building code designed to remove some of the hurdles current provisions pose to rehabilitating older

buildings.

Linking Transportation and Land Use

One of the greatest hurdles to more sensible growth is the frequent failure to link transportation and land use. Transportation improvements shape the location and pace of development, and land use plans and development can have a significant impact on the need for new transportation facilities and the effectiveness of transportation investments. Yet this link is frequently overlooked. For the most part, localities have been responsible for land use decisions and policies, while states have had primary responsibility for transportation decisions. The failure to link land use and transportation has contributed to sprawling development, traffic congestion, and other unintended consequences.

One of the more notable efforts to overcome these problems is the Georgia Regional Transportation Authority (GRTA), a transportation superagency that could provide a model for more sustainable transportation and smarter growth. GRTA has the potential to link transportation, land use, and air quality planning at the regional level; to provide a broader range of transportation choices; and to use transportation funding to guide growth to areas where it will not generate significant sprawl. Although it has yet to live up to its potential, GRTA was given tremendous powers by the state legislature, including the authority to veto regional transportation plans, build and operate public transportation systems, or withhold transportation funds from large development projects.

In contrast to GRTA, which was created by the state, local governments in the Charlotte-Mecklenburg County area have cooperated and committed to a regional transit and land use plan that identifies land use and community design characteristics and transportation improvements needed to address growth pressures in the area. Among other things, this plan outlines how local governments will revise their zoning ordinances to guide development to agreed upon transportation corridors and centers.

Conclusions

There are substantial opportunities to promote more efficient and more sustainable growth in the Southeast. Many steps in recent years have begun to take advantage of these opportunities. There are, however, significant barriers to adopting and implementing more sensible tools and strategies for guiding growth. These barriers include shorter-term hurdles such as budget shortfalls resulting from the recent economic downturn, as well as more intractable barriers such as transportation agencies that are often opposed to change, and politically powerful special interests that profit from current policies favoring sprawl development and road construction.

Despite these hurdles, the substantial economic, health, environmental, and social costs of current growth trends are fueling public concern and calls for change. States and localities throughout the Southeast must make critical choices about how they will grow. Policies that can capture the benefits of growth while minimizing the attendant costs must be adopted if the region is to enjoy continued prosperity, vibrant and healthy communities, abundant natural resources, and a strong quality of life.

NOTES

[1] For further discussion of the trends shaping the Southeast and new approaches to development, see Southern Environmental Law Center and Environmental Law Institute, *Smart Growth in the Southeast: New Approaches to Guiding Development* (1999)(available at www.southernenvironment.org). For a more detailed discussion of smart growth, see Pollard, *Smart Growth: The Promise, Politics, and Potential Pitfalls of Emerging Growth Management Strategies*, Virginia Environmental Law Journal, Volume 19, No. 3, p. 247 (2000).

[2] U.S. Census Bureau, 1990 and 2000 Census.

[3] Of course, these economic trends are not uniform. Several mainstays of the economy of a number of states in the region – such as textiles and tobacco – have declined sharply.

[4] SMARTRAQ, *Trends, Implications & Strategies for Balance Growth in the Atlanta Region* (2001)(available at http://www.smartraq.net/pdfs/synthesis.pdf).

[5] The Brookings Institution, *Job Sprawl: Employment Location in U.S. Metropolitan Areas* (2001).

[6] US Department of Agriculture, *1997 National Resources Inventory* (2000). The information in the remainder of this paragraph and in the next two paragraphs is also taken from this study.

[7] The Brookings Institution, *Who Sprawls Most? How Growth Patterns Differ Across the U.S.* (2001).

[8] Tony Bartelme, "Tri-County Growth Binge 'Not a Good Pattern,'" *Charleston Post and Courier*, September 11, 1997, pp. 1-B, 4-B.

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[10] Data compiled from Federal Highway Administration, *Highway Statistics 2000*, Table VM-2.

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[15] See Lawrence Frank, Brian Stone Jr., and William Bachman, "Linking land use with household vehicle emissions in the central Puget Sound: Methodological framework and findings," *Transportation Research Part D* 5, 3: 173-96 (2000).

[16] American Lung Association, *State of the Air 2001*.

[17] Michael S. Friedman, M.D.; Kenneth E. Powell, M.D., M.P.H.; Lori Hutwagner, M.S.; LeRoy M. Graham, M.D.; W. Gerald Teague, M.D., "Impact of Changes in Transportation and Commuting Behaviors During the 1996 Summer Olympic Games in Atlanta on Air Quality and Childhood Asthma," *J. Am. Med. Ass'n.* Vol. 285, No. 7, p. 897-905 (February 21, 2001).

[18] *Creating A Healthy Environment: The Impact of the Built Environment on Public Health* (2001). See also, Lawrence Frank and Peter Engelke, "The Built Environment and Human Activity Patterns: Exploring the Impacts of Urban Form on Public Health," 16 *Journal of Planning Literature* 202-18 (2001).

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[20] EPA, *National Air Pollutant Emission Trends 1900-1998*, Table 8-2.

[21] Chesapeake Bay Foundation, *A Better Way to Grow: For More Livable Communities and a Healthier Chesapeake Bay*, p. 4 (1996).

[22] American Rivers, *America's Most Endangered Rivers of 2001.*

[23] Memorandum from Joey Woodard, "Summary of sediment impacts to Turnbull Creek and tributaries," TDEC, Division of Water Pollution Control, September 7, 2000.

[24] Donald Appleyard, *Livable Streets* (1981).

[25] Christopher Horne, *Social Capital in Metropolitan Atlanta: Findings from the Social Capital Benchmark Survey* (June 18, 2001), p. 14.

[26] See, American Farmland Trust, *Living on the Edge: The Costs and Risks of Scatter Development* (1998).

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[28] National Association of Local Government Environmental. *Professionals, Profiles of Business Leadership on Smart Growth: New Partnerships Demonstrate the Economic Benefits of Reducing Sprawl* 13 (1999).

[29] TTI, *supra* note 13.

[30] U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures in 1999*, Table 8 (May 2001)(available at http://www.bls.gov/cex/csxann99.pdf). Data is not available solely for the seven states that are the focus of this article. The Consumer Expenditure Survey defines the South to include these states plus Arkansas, Delaware, District of Columbia, Kentucky, Louisiana, Maryland, Mississippi, Oklahoma, Texas, and West Virginia.

[31] *Id.*

[32] Bureau of Labor Statistics, *supra* note 31, Table 2.

[33] Myron Orfield, *Atlanta Metropolitics: A Regional Agenda for Community and Stability* (December 1998).

[34] 1000 Friends of Florida summary of a poll conducted by The Tarrance Group, Feb. 11-13, 2001 (available at http://www.1000friendsofflorida.org).

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[37] Federal Highway Administration, *Moving Ahead: The American Public Speaks on Roadways and Transportation in Communities* (available at www.fhwa.gov/reports/movingahead.htm).

[38] See, Phyllis Myers and Robert Puentes, *Growth at the Ballot Box: Electing the Shape of Communities in November 2000* (February 2001).

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[40] Land Trust Alliance, National Land Trust Census (2000).

[41] See EPA, *Our Built and Natural Environments: A Technical Review of the Interactions between Land Use, Transportation, and Environmental Quality* (January 2001), for discussion of many of the benefits of more compact development.

[42] North Carolina Department of Cultural Resources, State Historic Preservation Office, "The Economic Impact of the Rehabilitation Investment Tax Credit Program in North Carolina, December 31, 1999.

In tribute...

John A. Parker

John A. Parker, F. Stuart Chapin, and James M. Webb

On Jack...

"Numerous alumni point to him [Jack Parker] as a guiding force in their careers, but he didn't write a major text and he isn't remembered so much as a teacher. Like a headmaster, he embodied the values of his "school:" intellectual curiosity and a human concern for the consequences of a technical discipline. He created, nurtured and protected his department by dealing with the nuts and bolts of administration."

S.D. Williams, Carolina Alumni Review. Spring 1986

On Carolina and the Department of City and Regional Planning...

"It is an established fact that during the next ten years, there will be a serious shortage of Regional Planners unless more men and women are trained in the field. Obviously, there should be a school for planners in the South, and Chapel Hill, with its highly developed courses in Social Sciences and related fields, and its comparative nearness to Washington, is the logical location for such a school"

Letter to R. B. House, Chancellor,
University of North Carolina – Chapel Hill, Feb. 17, 1945

"We believe that the type of mind that is going to make a significant contribution toward post-war planning and design is the well-trained professional designer who is concerned with people and the way they live, with the community and how it operates, with the promotion of the welfare of their state and nation, and with international relations and people of other countries."

Letter to Dr. Frank P. Graham, President,
University of North Carolina – Chapel Hill, March 5, 1945

On Planning...

"Assuming that community planning should recognize this three-fold responsibility – human, environmental, and economic development – and that if we are going to succeed in making our communities better places in which to live and work and play, our goal should be an integrated program recognizing the inseparability of these functions – why do we lack such a coordinated approach and what can be done about it?"

Speech at Leadership Training Institute, Athens, GA, June 30, 1948

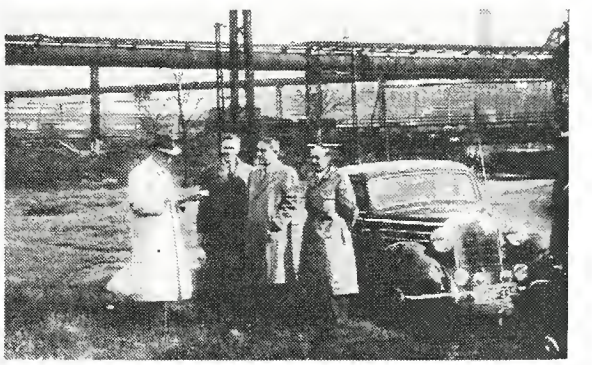
"City planning affects the entire community. It needs to be understood, and requires broad participation. This means education, and devising ways and means of brining citizens in on the planning process. Education means stories in the newspaper, programs on television and radio, talks to civic clubs and the community and neighborhood groups of all sorts. It means teacher education, so that the city planning idea can be presented to children in school, as part of their civics course."

Talk given at Kansas Conference on Planning, March 30, 1955

An International Exchange...

UNC-Chapel Hill and numerous other American universities hosted German officials as part of the post World War II-reconstruction effort.

In addition, John A. Parker and 13 other Americans in the field of local administration, planning and reconstruction were invited by the German Government on a month-longstudy of German cities.



Thyssen, Germany

The group at their departure

Other members of the group included Lewis Mumford; David E. Lillenthal, former Chairman of the Board of Directors of the Tennessee Valley Authority; and Frederick A. Pawley, Executive Director of the American Institute of Architects.

When is Infill "Smart?" Smart Growth Principles Tested in Raleigh

When a controversial infill proposal challenges the definition of "smart," planners turn to mediation as a tool to separate the issues from the rhetoric. In this article, the process of winnowing out what "Smart Growth" means, the role of planners in this debate, and the utilization of mediation techniques are discussed in the context of a planned development review.

Daniel A. Howe

The "Smart Growth" Movement in North Carolina. In 1999, a series of bills suggesting dramatic changes in planning law were introduced into the North Carolina General Assembly. These bills spawned the widest-ranging debate in the state for more than ten years on growth and development issues. Deferring specific action, the General Assembly appointed a blue-ribbon "Smart Growth Study Commission" to review the issue and formulate a series of legislative recommendations to promote comprehensive and coordinated local, regional and state planning, to be presented to the 2001 session of the General Assembly. The 37-member Commission began work in January 2000. The charge to the commission specifically mentioned "Smart Growth" in its title, the first reference in official state action to this concept.

Also in 2000, the North Carolina Chapter of the American Planning Association (NCAPA) had just initiated its "Smart Growth Challenge" effort in all 100 North Carolina counties. The Challenge sought to raise awareness among citizens regarding critical growth issues. It hoped to generate support for a Smart Growth agenda of new enabling legislation, funding process changes, and other means of support for growth management concepts. The agenda included encouragements for more high-density, mixed-use infill development.

Generally, planners have embraced the term "Smart Growth" to represent a collection of rational public policies toward managing growth in a 21st century context. As the phrase has become popularized in the press, however, its meaning has become increasingly difficult to pin down. Recent postings by professional planners on North Carolina's Planning Listserv (hosted by the University of North Carolina Institute of Government in Chapel Hill) regarding the American Planning Association's draft definition of "Smart Growth" have generated some lively traffic. It is not surprising, therefore, that when placed in the center of a political vortex surrounding a

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controversial land development proposal in Raleigh. "Smart Growth" was championed by both sides to support their position. Local planners had to attempt to steer clear of the debate and find a new means of centering the discussion on the merits of the specific proposal.

Context and Background. Raleigh is the largest city (299,280 estimated population - January, 2002) in the Research Triangle region of North Carolina, a fast growing metropolitan area of over 1.2 million[1]. The city's urban core is small, reflecting the explosive suburban growth of the region in the 1980s and 1990s. "Inside the beltline" (pre-1960) Raleigh neighborhoods no longer represent the majority of the voting population of the city, but have traditionally been politically powerful. Political support from the Council for new development in this portion of the city has varied with each election, with most emphasis placed on the redevelopment of Downtown Raleigh, especially the introduction of mixed-use activity centers and residential uses in the historic core area. Before 2000, urban infill controversy near Raleigh's core neighborhoods "inside the beltline" had been limited to medium-density multi-family and single-family uses being proposed in established low-density areas.

A new vision. At a location less than one mile from the State Capitol building, developer Neal Coker envisioned a modern, mixed-use complex of shops, residences, hotel, a movie theatre complex and offices, reaching up to 12 stories in height on an underutilized 15-acre infill tract at the intersection of Oberlin Road and Wade Avenue. Nothing of this scale had ever been proposed in such a context. The site he had assembled was a prime infill location, near the successful 1950's-era Cameron Village retail center and several of Raleigh's premier older neighborhoods, including Cameron Park and Hayes Barton. Within about 1.5 miles of Downtown Raleigh, the site was walkable, close to residential areas and within one-half mile of Cameron Village. The highly visible Wade Avenue corridor linked the site to downtown Raleigh as well as the Research Triangle Park and other parts of the Research Triangle region west of Raleigh. Oberlin Road connects Hayes Barton and other upper-income traditional residential neighborhoods with Cameron Village via the historic Oberlin Community, a predominately African-American neighborhood that has withstood generations of development on its perimeter.

Coker had good reason to believe there would be support for such a project here. **He was generally respected as a developer who responds to the needs of the community as well as to his investors. He had also acquired a reputation for creativity and for taking risks on new ideas.** Coker previously developed 510 Glenwood Avenue, Raleigh's first truly mixed-use mid-rise urban building in the modern age. The five-story project was built on a brownfield site in the Glenwood South district, an emerging restaurant /entertainment complex[2]. The site contains ground-floor retail, mid-floor office and upper floor residential condominiums, along with structured parking. The 510 Glenwood project was approved with near-universal support.

Building a Smart Growth Framework. When Coker approached the City of Raleigh staff regarding his hopes for the Oberlin – Wade site, he met with Planning Director George B. Chapman, FAICP. Chapman has carefully positioned his department as an impartial technical resource, purposefully steering policy decisions on land use, comprehensive plan and zoning issues away from staff and toward the appointed and elected officials. He wants his department to be the proponent of the official comprehensive plan as approved. Chapman sees the role of the City as facilitator of the plan's continuing evolution, not its author.

The Raleigh Comprehensive Plan, originally approved in 1990, is central to the current planning process in Raleigh. In a period where Raleigh has grown by 39 percent in population, the Comprehensive Plan has continued to evolve and change with each planning commission and City Council meeting. Decision-makers regularly refer to the plan on policy issues, and specifically change it when a zoning case or site plan alters its previous position. The planning commission publishes an annual review of comprehensive plan changes. The entire Comprehensive Plan is available on Raleigh's

web site (www.raleigh-nc.org/planning) and is updated soon after approval of any change. The planning department staff does not make recommendations on rezoning cases and comprehensive plan amendments. Staff write-ups lay out clearly the facts of the case, the aspects of policy that must be addressed and the procedure for doing so, but stop short of suggesting answers to policy conundrums.

Coker's plan promoted higher-intensity urban infill, a method that Chapman acknowledged as within the framework of smart growth principles. Whatever his personal ideas on the merits of the Coker project or the attitude of his professional staff, Chapman's planning department would still not recommend either its approval or denial. Instead, it would work diligently to identify the key issues that the Council and Planning Commission would need to resolve in order to determine whether this was a "smart" solution to growth for Raleigh. Up until this time, the term "Smart Growth" was not often heard in official circles in Raleigh, because in its relatively short life it had already become a flash point for political heat.

Paul Coble was elected mayor after Tom Fetzer stepped down in 1998. Coble was Fetzer's mayor pro tem. Neither mayor has expressed much sympathy for the whole concept of Smart Growth. Coble feared that the movement would result in the state of North Carolina usurping local authority over land use matters. Coble once referred to "Smart Growth" as a "baby that should be killed in the crib". This position has been a rallying cry for those who say that Coble is standing in the way of more rational growth in Raleigh and in the entire Triangle. Coble has chosen not to participate in many regional efforts toward growth management.

Chapman has tried to avoid setting any political fires by the use of the term "Smart Growth." Chapman has preferred to keep the discussion of growth issues in a non-partisan framework specifically focused on the project at hand. If a broad discussion of policy is called for, he has chosen to discuss "Smart Growth" concepts in more generic terms.

As in most long-range plans, policies in the Raleigh Comprehensive Plan are illustrated generally, but are often interpreted literally. Chapman pointed out to Coker and his team that the area immediately surrounding Cameron Village is designated in the plan as a City Focus Area. This designation targets the area for high intensity mixed-use development with up to 1.5 million square feet of retail space. Boundaries of the focus area are not specifically defined. The designation is illustrated in the plan as a large circle centered on the existing shopping center. The Coker tract is located on the fringe of this circle. The site lies within a "policy boundary line", a marker to separate non-residential development from the low-density residential areas surrounding it. A small area plan for the Oberlin neighborhood had specifically identified this area as an office site.

To some, this tract was clearly part of the City Focus Area and should take advantage of the intensity supported by that designation. To others, the idea that this property would be lumped in with Cameron Village, approximately one-half mile away, was ludicrous. In either case, Chapman advised Coker that a policy clarification would be necessary by the City Council, and that some aspects of the plan, specifically the office designation, would need to be changed to allow the mixed-use project to take place within the guidelines of the Plan.

The current zoning of the Coker tract is *Office and Institution-1*. A rezoning would be required to allow the proposed retail uses in tandem with the level of intensity and heights proposed by Coker. He hoped that he could convince the Council that the proposal was already consistent with the plan and specifically addressed language calling for "mixed-use activity centers". After consulting with Chapman, Coker chose to utilize the City's Planned Development Conditional Use Overlay District (PDD). The PDD is an overlay zone specifically targeted at mixed-use projects. It allows flexibility in building use, height, setbacks, street and pedestrian standards but requires approval of a master plan outlining transportation, open space,

pedestrian, utility and other functional systems. If used as envisioned, the PDD is ideal for infill sites, allowing more creativity than a more proscriptive zoning district while requiring that this development be subject to more detailed planning up front. As Chapman pointed out, the PDD process involves extensive opportunity for involvement and debate.

The Coker Project looks like a smart choice at first glance. Initially, the project drew praise. Both Marc Scruggs, Councilor representing District E just north of the site, and Benson Kirkman, representing District C, which included the site and areas south, expressed support. These men disagreed often on land use policy issues. Scruggs generally supported Mayor Coble's positions to limit regulation and support economic development. Kirkman, an advocate of neighborhood interests and a skeptic about many development proposals, was typically an antagonist to the incumbent Mayor in this arena. Scruggs' and Kirkman's agreement at this point was auspicious for the ultimate approval of the proposal, and other Councilors seemed inclined to support it, but not for long.

Upon the election of Mayor Tom Fetzer and a majority of politically conservative fellow councilors in 1992, the Raleigh City Council's former emphasis on in-town neighborhood issues changed to reflect the interests of Fetzer's more suburban constituency. Activists in Raleigh's core neighborhoods had been relatively silent. Now, a new coalition of neighborhood leaders, politically and technologically savvy, emerged to oppose the Coker project proposal. In some cases, opposition came from the same people who had previously participated in pushing a Smart Growth agenda. The opposition established a web site, a leadership committee and a name: the Neighborhood Coalition for Responsible Development in Raleigh (NCRDR).

The NCRDR took immediate aim at the proponents' claim that the Coker project reflected the best aspects of Smart Growth. Coalition members submitted op-ed pieces to the Raleigh *News and Observer*. The NCRDR criticized the plan as too ambitious for its context, insensitive to the historic Oberlin community, and likely to result in traffic gridlock. "No Coker Towers" yard signs began sprouting along Wade Avenue. A new web site was established, modeling the massing of the project using computer imagery. Opponents measured the proposal against an unapproved set of pending urban design guidelines to show how the project was oversized. They said that the proposal did not support transit or fit within the context of the area. They pointed out that Coker was outside the one-quarter to one-half mile radius from the "core" of a focus area laid out in the guidelines, that it was internally focused, too tall to be contextual with surrounding areas, that it had no internal streets or access to rail transit as called for in the guidelines. The NCRDR called for a new small area plan before the rezoning was considered.

Warren Raybould, a newcomer to the South who brought an appreciation for urban living from his previous time in Chicago, Los Angeles, and Washington, DC, became involved with the NCRDR after a volunteer showed up at the door to talk about the Coker Project. Raybould soon became active himself in the opposition. "I went into this with a premise that developers generally want too much and neighborhoods want too little, so a more urban project is not anathema. The goal was never to kill this project. One of the questions on the table here was: 'What is good infill?'" said Raybould. Warren Raybould is one of many newcomers to the South. Unlike most, Raybould settled in the small, dense, older core of the city, a part of town "where you have the ability to know your neighbor." Raybould is an urbanite. He's lived in downtown Chicago, Washington DC and Los Angeles. "My commute in LA was 15 minutes. That should tell you how close to downtown I really like to live," Raybould says.

Whatever the answer to this question, the NCRDR worked hard to make the point that Coker did not have it. With the increasing coverage of the project by the press, supporters were beginning to re-think their positions. Kirkman changed his mind and came out in opposition. The public hearing on the rezoning case had not yet occurred.

Smart, or not so smart? The Planning

Department zoning evaluation presented to the planning commission for the Coker proposal was, as always, neutral. In keeping with Chapman's policy of factual analysis, it made no mention of the unapproved urban design guidelines, or of any of the activity of the Smart Growth Study Commission. The staff report on the rezoning petition identified potential conflicts with existing Comprehensive plan policies, and where changes may be necessary should the Council wish to approve it. The NCRDR felt that exclusion of any discussion of the urban design guidelines or Smart Growth principles made the Planning Department's purported neutrality suspect. Both sides, aiming to bolster their take on Smart Growth, were looking for support from Chapman's staff.

Encouraged by the Planning Commission to do so, Coker sought out the opponents. He submitted a revised scheme that limited the height and scale of the project, removed the movie theatres from the land use mix, included the restoration of a historic Oberlin cemetery that was located on his site, and reduced the overall amount of retail. The final proposal called for up to 150,000 square feet of retail space, up to 220,000 square feet of office/ institutional space and up to 460 residential condominiums. The tallest structures would stand 45 to 85 feet above the Oberlin Road elevation (taller when viewed from Wade Avenue).

Despite the changes, rhetoric surrounding the proposal intensified. Yard signs were tagged with a new message: "Just Another Shopping Center" and "Still Too Big". Supporters continued to characterize the project as a Smart Growth project. An op-ed piece by former Mayor Fetzer appeared in the *News and Observer*, calling on smart growth advocates to practice what they preach and support this mixed-use infill project rather than force Coker's program out to the suburbs again.

The issue had also by now become a campaign issue. City Council elections were a few months away in October. Mayor Coble had been quietly supporting the project. His opponent, Charles Meeker, a former Councilor and general proponent of planning and Smart Growth principles, was loudly and actively opposing it.

This almost surreal atmosphere found Raleigh's conservative Smart Growth opponents touting this new project as the best example of Smart Growth the city had ever seen, while the traditional champions of Smart Growth were calling for the rejection of an urban mixed-use infill project. Planning Director Chapman saw the focus of the issue had shifted from the merits of the specific plan to a general debate on the definition of "Smart." In his carefully maintained role as technical advisor to the decision-makers, Chapman had little means to draw the debate back to the merits of this case. The strongly pro-planning and smart growth-oriented Planning Commission attempted to reign in the debate to focus on finding common ground, but as Chapman said, "Once they [the Planning Commission] have lost the confidence of one or both sides, they can no longer play the mediator." Faced with an impasse, the commission came down on Coker's side. The Planning Commission recommended approval of the plan.

Deadlock and Mediation. On May 15th, the City Council was handed a split Planning Commission recommendation for approval of a plan that would likely define smart growth in Raleigh. It risked the end of meaningful dialog between the proponents and opponents, with considerable media attention and municipal elections less than six months away.

Without clear support from a majority of Councilors for approval, a politically risky up-or-down vote looked inevitable. Because several Councilors were involved in tight races for re-election they were reluctant to act. By June no resolution of the issue appeared likely. To break the apparent deadlock Chapman suggested bringing in a team of outside mediators to try to focus the debate. One of the undecided at-large Councilors, Mort Congleton, suggested this option to the Council. The Council authorized the expenditure

in a last-ditch effort to find consensus.

Chapman suggested the mediation team of David R. Godschalk, FAICP, who holds the Stephen Baxter Chair in the Department of City and Regional Planning at the University of North Carolina, Chapel Hill, and Andrew Sachs, coordinator of the Public Disputes Program of the Orange County Dispute Settlement Center. Godschalk and Sachs had worked together extensively and brought to the table an extraordinary set of backgrounds and skills. Godschalk has specialized in land use mediation in his academic career and has authored or co-authored several articles and books on the process, including *Pulling Together* (Urban Land Institute, 1994). Sachs, with a Masters in City Planning from MIT, created the public disputes specialty at the Dispute Settlement Center of Orange County, and has been the central figure in a variety of high-profile Triangle-area land use cases. Not incidentally, Godschalk also represented the North Carolina Chapter of the American Planning Association on the state legislature's Smart Growth Study Commission.

There was little question about the qualifications of the mediators, but substantial concern about what they could do within the limits imposed on the process. Raleigh development regulations impose a 15-day limit on changes in the conditions of any Conditional Use rezoning request[3] referred to the City Council by the Planning commission. The time deadline for such changes had already passed on May 30 (the Planning commission's recommendation was referred to the City Council on May 15), meaning that whatever the results of the mediation process, the Council must vote on the May 30 version of the proposal, and then authorize an immediate re-submittal of another zoning case to fix any changes agreed upon in the mediation process into the approval ordinance. Also, in his resolution to bring in the mediators, Councilor Congleton set a time deadline of August 7 to conclude the mediation effort, because of the looming municipal election season. The mediation process began with the consultants being retained on July 11 in a state of near non-communication between the two sides.

"Part of the challenge," said Godschalk, "is shifting gears from making war to making peace." The first issues to be dealt with involved deciding how the group would meet and who would attend in what role. True negotiation is difficult if all the meetings are open to the public and to the press. "When the forum shifts," added Sachs, "the tools that are successful change. What works on an up or down (public) vote at the Council table will not work in a face to face discussion."

The participants represented the city staff (Chapman), the NCRDR (Raybould and three others), Coker and his attorney Lacy Reaves, and several members of the Oberlin community. Both proponents and opponents agreed to have open meetings at the beginning and end of the process, but to meet privately for the actual negotiating sessions. This was made possible because the Council did not appoint the membership of the negotiating team. Were they to do this, the NC Open Meetings Law[4] would have required that all meetings be open and advertised to the public.

Establishing the Ground Rules. Sachs began by focusing on the process in order to re-establish some trust among the interest groups. He proposed a 23-point series of protocols, including decision by consensus, ability to bring in resource persons, protection against litigation resulting from the mediation, and the final makeup of the negotiating team.

Despite his attempts to keep the Department in a neutral position, the NCRDR leadership viewed Planning Director Chapman as a tacit co-conspirator. NCRDR believed that by keeping the debate focused on Smart Growth, Chapman exhibited bias. As well, NCRDR distrusted his efforts to keep the proposed urban design guidelines separate from the discussion on merits of this specific project. The planning staff made no

recommendation one way or the other on the rezoning case, and this may have been the source of the feelings by NCRDR. One of the things the NCRDR wanted was for Chapman to be a neutral observer rather than a participant in the mediation discussions. He agreed.

The group ultimately accepted all but two of Sachs' ground rules. They could not reach consensus on language addressing distribution of a summary of each meeting. Nor could they agree on how to work with the news media.

Because the fifteen-day window for changes in the conditions of the rezoning case had passed, the City Attorney had warned the Council that they needed to be entirely shielded from any of the substantive results of the mediation discussions prior to their action on the zoning case. If the Council voted to approve the case, knowledge of the substance of the talks could expose the action to a potential legal challenge as contract zoning. This warning made it difficult to accommodate the NCRDR's desire to communicate with their membership and with the press about the ongoing negotiations while still maintaining sufficient silence to avoid prejudicing the Council.

The more difficult process of paring down broad concepts to specific issues went slowly. "When you represent over 1000 people," said Raybould (who would shortly become a declared City Council candidate), "the range of what they want is going to be all over the place." In the end some progress was made, relationships were partially repaired, the definition of "Smart Growth" began to be removed from the debate, but resolution of all of the outstanding issues was not possible in the short time frame.

"This should be a six- to twelve-month process," said Sachs. "The parties needed more time to explore the many facets of the proposal." The mediation process was called to a halt on August 1.

In the end, Marc Scruggs once again found himself, oddly, on the same side of the fence as his unlikely bedfellow, Benson Kirkman. Scruggs' vote of support was considered a sure thing early in the process. However, as he indicated that he would not support the proposal, Scruggs quoted from Harvey Penick's book, *Lessons and Teachings from a Lifetime of Golf*, claiming inability to reconcile potential traffic problems and negative impact on surrounding neighborhoods. The loss of Scruggs' vote meant that all hope for a five-vote majority on the eight-member Council was gone. In the end Coker asked that the proposal be denied.

Postlude. Number eight on newly elected Mayor Charles Meeker's 34-point to-do list is "Renew planning initiative with revised master plan on Wade/Oberlin project." The current City Council is reviewing this request in response to another call (after the zoning case was resolved) by the NCRDR for a new small area plan for the Oberlin and Wade corridors. Chapman's Planning Department is straining under the weight of multiple requests for small area planning in a tight budget year. The city has instituted a "Neighborhood College" and a "Neighborhood Group Registration Program" to help bring citizens closer to the decision process, and embed established groups like the NCRDR in the process early on.

Coker himself has indicated he may be back soon with a scaled-down, broken up, more incremental project. It is not clear whether this will be "smarter" than the first proposal. The 510 Glenwood project was approved in the context of an aging industrial enclave nearer downtown and separated from residential neighborhoods. This new plan generated emotions that were not anticipated when it was first proposed. The contentious nature of the "Coker Towers" infill process seemed to affect the developer personally.

"This process is about relationships, not facts,"

said Godschalk. He believes that intervention must happen early in the process. A system needs to be put in place in local government to identify potential impasses and allow neutral trained mediators to be brought in before the parties set their positions in stone, either utilizing outside facilitators or local government staff. Raleigh officials seem to have taken this to heart. Mayor Meeker recently called for a mediation team to be assembled for another large-scale mixed-use rezoning request, this one in a far suburban location, but with equally virulent opposition[5]. The difference in this new case is that the Mayor is calling for mediation to begin immediately after the public hearing.

Whatever happens with the Coker site, Godschalk believes an excellent opportunity now exists for Raleigh to define what smart growth really means in this particular place, but enough time must be set aside to allow the process to take its course. Sachs agrees that time was definitely a factor. He believes that a six- to twelve-month process is not unreasonable to flush out all the potential issues and reach resolution in a mediated dispute.

Unlike Meeker, Warren Raybould lost his bid to become part of the City Council. But he feels he's a lot smarter about smart growth now than before. "We understand that things are going to change and grow and that the core will grow," said Raybould, "but how our neighborhood will change should be determined by citizen involvement, economics and area planning. I don't use the term 'smart growth' because of the emotional baggage. I prefer we focus on defining good urban infill." He is looking forward to engaging Coker in a discussion of a revised project for the 15-acre site.

The Smart Growth Study Commission has issued its findings. They are available on the Internet at this address: http://www.ncga.state.nc.us/SmartGrowthReport.pdf. Little of substance has resulted from the recommendations in a year where the State is grappling with nearly a $1 billion budget shortfall.

Planning Director Chapman is circumspect about the ability of local government to anticipate infill pressures far enough ahead of time to apply limited planning resources to the critical areas in advance of specific plan proposals. He believes it might be a good idea to procedurally separate "greenfield" planning from infill planning. He draws a parallel with citing affordable housing. There are many built-up vested interests that are brought to bear in infill situations that are not present in emerging suburban areas. The important components are education, engagement of the community and a regulatory process that follows through on whatever commitment is made in the planning process.

Chapman does not see the Coker process as a failure. He said: "The public was confused, but the process was smart," meaning that the issue really did have a thorough airing, and when the players ultimately came to the table in a mediated framework, the Smart Growth rhetoric dissipated, progress was made, and the groundwork was laid for future consensus on perhaps a different, maybe "smarter," project.

RESOURCES

Godschalk, David. R. **Negotiating Intergovernmental Development Policy Conflicts.** American Planning Association Journal #368, Summer 1992

Godschalk, Parham, Porter, Potapchuk, Schukraft. **Pulling Together: A Planning and Development Consensus Building Manual**, Washington, D.C.: Urban Land Institute, 1994.

Commission on Smart Growth, Growth Management and Development. **Findings**

and Recommendations. North Carolina General Assembly, Fall, 2001

WORLD WIDE WEB RESOURCES

City of Raleigh, Planning Department Web Site (Comprehensive plan on-line): www.raleigh-nc.org/planning

City of Raleigh, Oberlin / Wade project Web Site: www.raleigh-nc.org/planning/oberlin_wade/oberlin_wade.htm

Neighborhood Coalition for Responsible Development in Raleigh - Web Site: www.ncrdr.com

North Carolina Smart Growth Coalition Web Site: http://www.ncsmartgrowth.org/

NCAPA Web Site: http://www.nc-apa.org/

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NOTES

[1] Raleigh is the second-largest city in North Carolina. Charlotte is the largest, with a 2000 population of approximately 540,000.

[2] The Coker project was built on the site of a former chrome bumper refinishing operation. Glenwood South is a redeveloping industrial area just west of Downtown Raleigh.

[3] The PDD zoning district proposed by Coker is a Conditional Use Overlay District, subject to the City's process for such rezoning petitions. City Code section 10-2165(b) sets a limit of 15 days to amend conditions after the Planning commission refers a case to the City Council.

[4] G.S. 143-318.9-18

[5] Case Number Z-15-02. Master Plan proposes approx. 126,800 sf retail, 350,000 sf office, and up to 25 units per acre of residential uses on a 56 acre site near the intersection of Strickland and Lead Mine Roads.

Charlotte's Equity Loan Program: A Model for Financing Inner-City Redevelopment

This article reviews equity loan programs for inner city neighborhoods in Charlotte and Greensboro, North Carolina. The author explains the need for capital in inner cities, then discusses the role of lending in neighborhood development. Three similar programs – Phoenix's collateral development program, the U.S. Housing and Urban Development Administration's New Markets Initiative, and the Corporation for Enterprise Development's Individual Development Accounts – are overviewed and compared with Charlotte's City Within A City equity program. The author conducts three analyses: 1) an outcome or performance-based analysis, 2) a process analysis of activity interest, and 3) an impact analysis that examines qualitative effects of two business on their respective neighborhoods. Early results suggest that the CWAC program has been successful, although some structural features limit the program's effectiveness. Self Help has sought to replicate the success of this program in Greensboro. The author provides a set of recommendations for beginning such a program in Greensboro and other North Carolina cities.

Anne Scorza

I. Introduction

Many urban business districts across the United States have suffered over the years from neglect, out-migration of residents and businesses, racial and ethnic discrimination, and public policy favoring suburban development. As a result, these once-thriving commercial and shopping districts, which together with surrounding residential neighborhoods are known as the "inner city," are now home to vacant or boarded-up buildings, high crime rates, inadequate infrastructure, and struggling businesses. Residents and employees in these neighborhoods do not have access to the goods and services they need, and are thus forced to spend money elsewhere, either in the suburbs or in the city's more prosperous business districts.

A number of policies and programs have been developed to address these problems. In 1999, the U.S. Department of Housing and Urban Development (HUD) established the New Markets Initiative, designed to stimulate business development in inner cities, which the initiative views as overlooked "new markets" with untapped retail and business potential.[1] Community Development Block Grants, Enterprise Communities and Empowerment Zones, the Community Development Financial Institution (CDFI) Fund, and the Brownfields Economic

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Development Initiative are other federal programs that target investment in these areas. In fiscal year 1996, Federal spending on urban economic development programs for the inner city was approximately $8.9 billion.[2] In 1999, this figure rose to $9 billion.[3] At the state level, state development zones and statewide growth management tools (such as urban growth boundaries) target development by location, environmental features, and socio-economic characteristics.

At the local level, many cities and towns have used tools such as tax-increment financing (TIF) districts, business improvement districts, façade grant funds, and local development zones to meet the needs of their distressed business districts. The City of Chicago, for example, has established over 100 TIF districts, where roads and other infrastructure have been improved, vacant buildings have been rehabbed, and jobs have been created. TIF is a method by which property tax revenue generated from redevelopment is captured and retained for additional redevelopment within the district. TIF can be an effective way to target redevelopment of blighted neighborhoods without diverting the City's general funds from other projects.[4] (North Carolina's constitution does not permit the use of TIF programs.)

Likewise, local business owners often use business improvement districts (BIDs) to clean up and provide services to their districts. Under this method, property owners voluntarily agree to pay for common services in the district, usually through taxation. For example, a BID was established in 1992 in Times Square, long known as one of New York City's red-light districts. The Times Square BID succeeded in using its $7 million annual appropriations, culled from grants, resident dues and commercial building tax assessments, to complete its goal of making the area "clean, safe and friendly," though some have criticized this program for ruining Times Square's character.[5] Finally, booster groups at all levels of government, through Chambers of Commerce and non-profit organizations, have also formed to promote distressed business district revitalization.

Loan programs are another tool used at the Federal, state and local levels to finance business district development. Governments, non-profit organizations, and private developers often must rely on outside financing to undertake revitalization projects. Likewise, individuals rely on financing tools to start or expand small businesses. For both organizations and individuals, when existing assets are insufficient to fund the project, debt financing is used as a means to leverage existing assets and acquire the necessary remaining funds. Where the gap in existing and needed assets is high, often in inner-city neighborhoods, targeted loan programs can be an effective way to fill the gap and encourage individuals to start or expand businesses. However, a greater challenge exists when equity funds are unavailable. In that case, nothing exists to leverage debt dollars, so it is more difficult to obtain the required debt financing. For many low-wealth individuals seeking to start businesses, it is this lack of equity that hinders their ability to obtain loans.

The City of Charlotte established the City Within A City (CWAC) Equity Loan Program to address this need for equity. By providing deferred equity loans to eligible individuals, the program aims to close the gap between existing and needed assets and thereby stimulate small business start-up and expansion in targeted distressed neighborhoods. The purpose of this paper is to demonstrate the success of this program and to make recommendations for replicating it in other North Carolina cities. Self-Help, a non-profit credit union and CDFI based in Durham, has been an active lender with the Charlotte program since 1995. Recognizing the program's potential to address the need for entrepreneurial capital in other cities throughout the state, Self-Help has taken the lead in a replication effort currently underway in Greensboro. The replication effort in Greensboro and the program's experience in Charlotte form the basis of my recommendations.

Before turning to Charlotte's program and the replication effort, I first explain the need for capital in inner cities, then discuss the role of lending in neighborhood development, and finally briefly discuss three other programs similarly designed to address the need for capital. In Section II, I describe and analyze the Charlotte program as a

case study. The final section of this paper outlines Self-Help's replication effort and its proposed program for Greensboro, and concludes with recommendations for a successful equity loan program.

The Need for Equity Capital in Inner Cities

Many inner cities across the United States suffer from physical, social and economic distress. Physically, their streets, water/sewer systems, and other infrastructure are often crumbling and outdated. Socially, inner cities have higher crime rates, less educated residents, and a lower skilled workforce than other parts of metro areas. And economically, inner cities have less wealth, less entrepreneurial activity, and less access to capital compared to their suburbs. To contrast these traits with the potential economic advantages of these neighborhoods – such as location and untapped market demand – Harvard Business School Professor Michael Porter identifies these traits as the "real disadvantages of the inner city.[6]"

The focus of this paper is on the last trait: access to capital. According to Porter, "access to debt and equity capital represents a formidable barrier to entrepreneurship and company growth in inner city areas.[7]" Hard evidence to support this claim is difficult to find, though some studies do exist. For example, a study of small companies (less than $1 million in annual sales) in the Chicago metropolitan area found that the number of loans to these firms was expected to decrease in census tracts with more blacks or Hispanics and/or with lower income levels. This study, though unable to definitively prove racial or geographic lending discrimination, does show that businesses in lower-income and minority neighborhoods receive fewer loans than those in higher-income and white neighborhoods, controlling for firm size, industry type and firm population. The study also cites research showing that smaller, newer firms are less likely to receive loans than larger, older firms (Cole 1988); black-owned firms are denied loans more often than white-owned firms (Ando 1988); and start-up firms in minority areas receive smaller loans than similar firms in non-minority neighborhoods (Bates 1989, 1993)[8]. Finally, a survey by the Initiative for a Competitive Inner City (ICIC) of 40 inner-city businesses in Boston revealed that approximately 60 percent of the business owners reported having difficulty accessing debt and equity capital at the time of the study.

Anecdotal evidence for the lack of access to credit is more prevalent. The Charlotte equity loan program began because of lenders' observations that access to equity was a significant barrier to loan approvals. City staff agreed that equity was needed, and the City Council approved the program. Throughout Self-Help's effort to replicate this program, economic developers, City leaders, downtown booster groups, and loan officers in Durham, Charlotte and Wilmington have also pointed to equity capital as the missing piece among many potential borrowers. For example, an informal review of 75 loan applications to Self-Help's Durham office revealed that six denied loans – nearly 10 percent – would have been approved had equity capital been available. In one case, the loan officer had to deny a loan to an individual seeking to start an ambulance service because "he had weak credit but the real obstacle was that he had no free cash to put into the deal.[9]" While the number of denials may not be large, these six cases show that even for a flexible lender such as Self-Help, lack of equity can be a significant barrier. Furthermore, many potential borrowers are screened out before they reach the application stage, suggesting that an even greater number of individuals do not receive loans because of lack of equity.

There are many explanations for this inability among minority and inner-city firms to access capital. First, discrimination among lenders prevents many minority small business owners from obtaining loans. It is believed that many private lenders practice statistical discrimination, whereby loans to minority applicants are rejected based on historically higher default rates.[10] Second, small loans to entrepreneurs in any environment are less profitable than larger loans, because transaction costs are the same regardless of loan size, while lower interest and fee revenue on smaller loans yields less profit. Lenders therefore prefer to make

larger loans, putting small business owners in the inner city and elsewhere at a disadvantage.

Third, according to Porter, "inner city entrepreneurs often lack personal or family savings and networks of individuals to draw on for capital.[11]" To the extent that Porter's definition of the inner city includes a large proportion of blacks and other racial minorities, this argument can be supported by evidence that whites have higher net worth and net financial assets than other races.[12] For example, Sherraden (1991) demonstrates that in 1984, the median net worth of whites was as much as 95 times higher than that of blacks and Hispanics.[13] Oliver and Shapiro (1997) likewise show that in 1988, the median net worth – all assets less any debts – of whites was approximately twelve times higher than that of blacks ($43,800 versus $3,700).[14] Finally, a *The Wall Street Journal* reported in 2000 that white non-Hispanics had approximately six times the family net worth of nonwhites and Hispanics ($94,900 versus $16,400).[15] Whatever the level of disparity, the fact is that nonwhites have significantly less net worth than whites.

Similarly, we can consider net financial assets (NFA) – defined as liquid financial assets that are available for present or future conversion into cash – as another measure of wealth. Oliver and Shapiro find that the disparity in NFA between blacks and whites is even more pronounced than the disparity in net worth: the median NFA of whites is $6,999, while the median NFA for blacks is $0. As expected, this disparity is most pronounced among individuals with less income, education and work experience, and among people younger than age 36 or over age 64.[16]

Less extensive networks of wealthy families or friends also prohibit access to capital among inner-city minorities. Long-time institutional policies have prevented minorities, particularly blacks, from accumulating wealth. Starting with slavery and continuing through reconstruction, Jim Crow segregation, the Federal Housing Act of 1934, urban renewal in the 1960s, and predatory lending today, the financial inequality between whites and minorities has been passed down from generation to generation. Combined with social and other economic inequalities, such as unequal access to education and jobs, the result is that blacks and other minorities have historically had less access to social and financial capital than whites. Therefore, there is less available capital among social networks of minorities than of whites, and minorities, on average, cannot rely on friends or family for capital assistance.[17]

Fourth, Porter argues that "institutional sources of equity capital are scarce for minority-owned companies and have virtually ignored inner city business opportunities." According to Forbes Magazine, venture capitalists invested $85 billion in developing companies in 1998, but only $2 billion, or 2.3 percent, went to minority-owned companies.[18] Federal government programs leveraged a similar amount of capital for inner-city businesses. ICIC found that in 1996, the Federal government's $300 million in direct inner-city capital expenditures (primarily in the form of credit enhancement programs) leveraged $2.5 billion in private capital. However, the government spent twice as much ($600 million) on all urban lending programs, which leveraged four times the amount of private capital ($11 billion) as that invested in inner cities.[19] Compared to white-owned businesses and companies located in more prosperous urban areas, then, inner-city businesses receive significantly less equity capital investments.

Charlotte's CWAC Equity Loan Program was designed to address these shortcomings. Recognizing the specific need for assistance with the equity portion of a project, the loan program's creators sought to help inner-city entrepreneurs overcome one barrier to small business development. The program was not intended to address the other barriers, such as low credit scores or insufficient business management capability. The City has developed other programs such as the Business and Entrepreneurial Skills Training Program, a partnership with Central Piedmont Community College and First Citizens Bank, to help small businesses address some of these issues. Nonetheless, the CWAC program's creation and success attest to the need for equity capital among Charlotte's inner-city businesses.

The Role of Lenders in Neighborhood Development

It is widely recognized lenders play a critical role in neighborhood development and operate in the context of large social, economic, and political forces. The pattern of home mortgage lending over time clearly demonstrates the interaction of these forces. For example, Federal Housing Administration (FHA) and Veterans Administration (VA) loan programs, which created 30-year, fully amortizing, low monthly payment, and 10 percent down payment loans, produced an explosion of home ownership in the United States after World War II. These programs (along with increased home construction and advances in transportation and electric power) also produced a tremendous rise in suburban development. However, another consequence of the FHA and VA loan programs was increased racial segregation between suburbs and cities. The practice of redlining – denying loans to racially-diverse, low-income, high-poverty neighborhoods – which was instituted under the Home Owners' Loan Corporation (HOLC) during the 1930s, continued under the FHA and VA programs, and was quickly adopted by private banks. The programs also instituted racially restrictive covenants until 1950. As a result of these policies, white suburban home ownership flourished, while blacks and other minorities were increasingly isolated in urban enclaves where property values fell, and lack of investment led to disrepair, vacancy, and abandonment.[20]

Recognizing the ability of loan programs to shape the character of neighborhoods, policy makers can help develop policies and programs to prevent future segregation and dislocation of residents, and produce more economically sustainable neighborhoods. The Community Reinvestment Act (CRA) of 1977 is one such policy. This act requires lenders to serve the neighborhoods from which their deposits come, in order to improve low-wealth communities' access to credit. To enforce this law, the act requires periodic reviews and requires that Federal regulators consider lending activity to low-income and minority residents when reviewing applications for mergers and acquisitions. Through these reviews, Federal regulators assess lenders' CRA activity and assign them one of four ranks (Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance).[21]

In response to this act and to challenges from community advocacy groups, particularly when banks have sought approval of proposed mergers, banks and other lenders have created CRA agreements and have increased their efforts to target loans to inner-city and other distressed neighborhoods. In the commercial lending realm, CRA agreements can include provisions for lenders to target small businesses, minority- and women-owned businesses, and economic development projects. Despite the serious threat that increased lending to minority and low-income neighborhoods has the potential to inadvertently encourage predatory lending, the Community Reinvestment Act has raised awareness across the country of the important role that lenders play in community development.

One final example further illustrates the role of lenders in neighborhood development. In July 2000, the Forest Conservation Council (FCC) and Friends of the Earth (FoE) issued a joint letter to four regional Small Business Administration (SBA) offices warning that the SBA's lending activity was contributing to urban sprawl. As a Federal agency, the SBA is responsible under the National Environmental Policy Act (NEPA) to assess the environmental impacts of its actions. According to the letter, FCC and FoE requested that the SBA "prepare a Programmatic Environmental Impact Statement which discloses the cumulative effects of its lending and loan guarantee programs in the Greater Washington D.C. area...since these programs significantly contribute to problems of urban sprawl.[22]" In October, FCC and FoE followed up on their accusation with a lawsuit against the SBA. In response, the national Black Chamber of Commerce filed an amicus brief in support of the SBA. In a similar move, the Small Business Survival Committee (an advocacy group) followed with a counterattack on FCC and FoE, defending the SBA's loan programs as essential to successful entrepreneurship.[23]

This final example reiterates how dramatically

lending policies can affect neighborhoods and larger-scale urban spatial patterns. Regardless of the outcome of the lawsuit filed against the SBA, this case demonstrates that lending institutions should be aware of the potential impacts of their lending activity on neighborhoods.

The designers of Charlotte's City Within A City loan program recognize the program's potential for neighborhood- and city-level impact. By lending in specific geographic areas, in conjunction with the other CWAC initiatives, the equity loan program focuses its efforts on sustainable development of inner-city neighborhoods. To the extent that loans go to businesses in the CWAC targeted area, the program reduces the pressures for urban sprawl. Before turning to this program, I first briefly present three other programs that also address community development and the need for equity capital.

What Others Have Done: Sample Programs

Somewhat surprisingly, there appears to be no other program in the country like the CWAC Equity Loan Program. Many local governments offer low-interest loan programs to stimulate development of targeted communities, but none offers loans deferred up to ten years to small business owners lacking cash for a down payment. The City of Phoenix has a program that is very similar to CWAC, but provides funds for collateral rather than equity. Two other programs addressing the same problem – lack of capital among inner-city business owners – are the New Markets Initiative and Individual Development Accounts. In the following section, I describe these programs, compare them to the CWAC program, and discuss their strengths and weaknesses.

City of Phoenix EXPAND Program

The City of Phoenix established the Expansion Assistance and Development Program (EXPAND) to stimulate access to capital for small and medium-sized businesses. Where the CWAC Equity Loan Program addresses the need for equity capital, the EXPAND program provides financial assistance to business owners lacking adequate collateral to obtain conventional loans.[24]

Under the program, loan applicants who demonstrate all elements necessary to obtain conventional financing except for adequate collateral may apply to the City for a "collateral enhancement." If approved, the City pledges a Certificate of Deposit (CD) to a participating lender in the amount of 25 percent of the loan (maximum), to a dollar ceiling of $100,000. This CD then serves as collateral for the loan; if the loan goes into default and liquidation, the lender may claim the enhancement funds. However, if the loan is repaid, the enhancement collateral is returned to the program for future commitments. As the loan is paid off, the amount of the collateral enhancement is periodically reduced so that it always equals a constant percentage of the loan amount. These funds – and the interest accrued on them while deposited with the financial institution – are then recycled back into the program.

The EXPAND program is a unique, simple, and effective program to help small businesses obtain loans. From 1993 to 2000, it provided more than $3 million in collateral enhancements to approximately 70 businesses, enabling companies to borrow over $12 million in private funds. On average, the program commits approximately $45,000 in collateral to each business. Since 1993, four projects have defaulted, totaling $97,250, or 3 percent of total funds pledged. Over the program's seven years, this represents an annual loss rate of less than 0.05 percent, similar to lending industry standards. More than 500 jobs have been created and maintained as a result of the program, the program reports.

The City recognizes the benefits this program creates for the small businesses, citizens and the City as a whole. Business start-up and expansion, increased goods and services, and job creation are among the program's advantages. Lenders are able to make more loans as a result of the program, thereby increasing profits. The City also benefits from a larger tax base resulting from increased business activity and jobs. The program's popularity among lenders (16 lenders have used

the program since its inception, 11 from 1989 to 1999) also attests to its success. In addition, the revolving feature of the program makes it self-sustaining. In fiscal year 1998-99, more than two thirds (69 percent) of the program's funds were recycled from previous collateral contributions and earned interest. (One major shortcoming of the CWAC program is its failure to be self-sustaining, as I discuss later in this paper.)

Challenges and limitations to the program include its reliance on CDBG funds, its broad applicant pool, and its untargeted geography. First, while the majority of the program's funds come from its own activity, the City may have difficulty procuring CDBG funds annually due to competition for the funds. Second, by not establishing eligibility requirements, the program does not target assistance to those most in need. Third, by allowing loans to businesses anywhere in the city, the program limits its potential to concentrate investment in targeted, distressed areas. However, loans have in fact clustered in City Council District 8 (central Phoenix) due perhaps to a greater need in that area. In addition, the program's unrestricted geography likely increases political support for the program. EXPAND has been able to successfully balance the need for city-wide political support with the needs of specific neighborhoods, which is crucial for any local government seeking to establish a geographically-targeted program.

New Markets Initiative

Another program similar to Charlotte's CWAC Equity Loan Program is the New Markets Initiative. NMI is a Federal program launched by the U.S. Department of Housing and Urban Development (HUD) in 1999 to stimulate investment in America's low-income urban and rural communities. Today, the literature surrounding the initiative focuses on urban communities with a retail gap – where retail buying power exceeds retail sales – that are viewed as overlooked "new markets" with untapped retail and business potential.[25] This concept stems from the research of Porter and ICIC, discussed above, which contends that inner cities have strategic economic advantages over other locations.

The original concept for NMI included seven programs designed to provide technical assistance and capital to the inner city, to create a network of investors, and to increase awareness of the economic potential of inner-city businesses. One program that has received federal funding is the New Markets Tax Credit. This program was enacted in December 2000 and aims to stimulate $15 billion of investment in low-income communities. This program enables qualified community development entities (CDEs) to sell tax credits to investors in exchange for equity capital which the CDEs provide to businesses in qualified low-income areas. Investors receive a tax credit of 5 percent of the investment for the first three years, and 6 percent for the next four years (totaling 39 percent over seven years), plus a portion of the returns generated from the investment. Qualified low-income communities are defined as census tracts with a 20 percent or higher poverty rate, or with a median family income below 80 percent of the area median income. Businesses receiving capital investments from CDEs must be located in, provide substantial services to, or earn at least 50 percent of gross income from these low-income communities.[26]

NMI, and the tax credit program in particular, address the same problem identified by the CWAC program: inadequate capital in distressed urban business districts. Both programs increase the opportunity for businesses in low-income communities to receive loans. Both programs also recognize the potential for inner-city communities to become successful markets for jobs, goods and services, and increased investment. Finally, CWAC and NMI both seek to capitalize on inner-city neighborhoods' competitive advantages in regards to location, infrastructure, and labor force.

The New Markets Initiative's strength lies in its recognition of the potential of inner cities, and in its ability to provide information to the public and to investors about this potential. Its involvement of the private sector, through a popular vehicle such

as the tax credit, is another strength.

There are also potential weaknesses and unintended consequences of the initiative and the tax credit program. Most important, the tax credit program runs the risk of causing relocation of neighborhood residents.[27] By enabling non-local businesses to locate in inner cities and qualify for capital investments, and by not requiring employees of these businesses to reside in low-income communities, the program may inadvertently provide more capital to outsiders than to the existing community residents. Also, the program may simply encourage businesses to locate in targeted neighborhoods instead of other areas of the city that may be in need of business development. In this case, business location is diverted from one neighborhood to another, and the city does not necessarily gain a net benefit. Finally, the NMI literature's focus on retail runs counter to the recognition of the jobs multiplier effect, whereby manufacturing and industrial activity create more jobs than retail businesses. In the case of the tax credit program, where the types of businesses that receive loans and investment will be determined by the CDEs, it will be up to the CDEs to ensure investment in non-retail companies. A provision encouraging CDEs to do this would make sense, such as the provision in the CWAC program that increases the allowable loan amount to manufacturing businesses.

Individual Development Accounts

In 1997, the Corporation for Enterprise Development initiated its American Dream Demonstration program to test how well Individual Development Accounts (IDAs) can help low-income and low-asset individuals save and build wealth through the ownership of a home or business, or through investments in post-secondary education or retirement accounts. Michael Sherraden developed the IDA concept, published in his *Assets and the Poor* (1990), as a means of restructuring the American welfare system. Today, 14 demonstration projects run by 13 organizations exist throughout the country to test the concept.[28] The CWAC equity loan program is comparable to the self-employment version of the IDA: both are designed to help individuals overcome the difficulty of saving enough cash for a down payment to start or expand a business.

Typically, an IDA serves as a matching fund whereby every dollar an individual deposits is matched two to one by program dollars. This is the case in North Carolina, for example, where funds are typically capped at $1,000 and matched two to one, according to a study by the University of North Carolina's Center for Urban and Regional Studies (CURS). When an individual contributes the maximum amount, the program matches it with $2,000, allowing each participant to build up to $3,000 in savings.[29]

The IDA concept is an innovative approach to asset building. By encouraging future-oriented saving behavior, and by limiting the use of funds to specific realms, IDAs address the need for long-term, targeted investment. Sherraden demonstrates that IDAs will benefit not just the recipients at the micro level, but also the nation at the macro level by encouraging economic growth through capital accumulation. What is less apparent, however, is whether IDAs will be a benefit at the neighborhood or community level. In neighborhoods where demonstration projects are underway, will residents have increased access to goods and services as a result of increased capital accumulation? Requirements such as the one in Durham that requires IDA participants to use their savings to purchase a home within certain geographic boundaries are encouraging in this regard.

Among the 14 demonstration programs, more account holders intend to use their funds for home equity than for small business development. On average, 55 percent of the programs' participants are saving for home purchase, while only 18 percent are saving for microenterprises, according to a study by Washington University in St. Louis. However, as of June 1999, 33 percent of account holders who made withdrawals used their funds for micorenterprise, outnumbering the 27 percent of account holders who used their withdrawals for home purchase. The Washington University study

concludes that "early withdrawals for micorenterprise are common because small sums may be used for small businesses, whereas larger amounts are usually required for home purchases." Nonetheless, it is encouraging that the IDA program has enabled over 1,000 individuals to accumulate savings averaging $100 per month.[30]

Summary

Entrepreneurs in many urban business districts in the United States lack access to equity capital. While national programs have been established to address this shortcoming, such as the New Markets Initiative and the IDA demonstration project, very few local programs exist. In targeting inner cities, these national programs shape the way lenders and investors influence specific neighborhoods, and they recognize that lending activity can profoundly affect a neighborhood physically, socially, and economically. Phoenix's collateral enhancement program and the CWAC Equity Loan Program are two local programs that address these same issues. I now turn to Section II, where I describe the CWAC program and the citywide CWAC initiative, and assess the program's effectiveness.

II. Case Study: The Charlotte Model

The City Within A City Initiative

In 1991, leaders among the Charlotte City Council recognized that the city's older urban neighborhoods and business districts were in need of specific, targeted revitalization efforts. Responding to this need, the City formed City Within A City (CWAC), a comprehensive strategy to create a healthy urban core by addressing economic development and quality of life issues in the inner city. Mirroring Charlotte's local development zones, the CWAC area encompasses 60 square miles surrounding the city's downtown, and includes 73 neighborhoods. Compared to the rest of the city, which includes approximately 100 neighborhoods covering 240 square miles, the CWAC area's unemployment rate is currently five times higher, its violent crime rate is twice as high, and its juvenile crime rate is 30 percent higher. The CWAC area also has high poverty, low educational attainment levels, deteriorating and relocating businesses, low quality housing, and low levels of neighborhood involvement and organizational capacity.[31]

Today, the CWAC initiative is one of five focus areas the City Council has identified to help meet the community's needs; the others are Community Safety, Transportation, Economic Development and Restructuring Government. The specific goals of the CWAC initiative are to improve the economic opportunity, physical environment, and safety of the CWAC area. To accomplish this, the initiative has attempted to apply the principles of empowerment, sustainability, capacity building, and creating a sense of accountability among community members. Establishing partnerships between the City and community leaders is another important element of the initiative's mission. As such, the initiative is a comprehensive, participatory approach to neighborhood revitalization.

In order to focus its efforts on the most distressed neighborhoods within the CWAC area, the City set priorities based on income, age, education, and crime data. Later, to more accurately identify the neediest neighborhoods, the City hired the University of North Carolina at Charlotte's Urban Institute to conduct a comprehensive Quality of Life Study. This study identified 20 variables, shown in Table 1, which were combined by formula into a Quality of Life Index. Weights for the formula are also shown in Table 1. The Quality of Life Index was then used to identify each neighborhood statistical area (NSA) as "stable," "threatened," or "fragile.[32]"

Quality of Life Study Results

The Urban Institute conducted two Quality of Life Studies, one in 1997 and one in 2000. The first study examined only the 73 NSAs within the CWAC boundaries, and used only 18 of the 20 variables. The second study expanded the geographical focus to include 100 NSAs within the Charlotte metro area but outside of CWAC, and used all 20 variables. To account for differences in study areas, and to allow for a more reliable comparison between the 1997 and 2000 studies,

the Urban Institute conducted an additional study in 2000 of only the 73 CWAC neighborhoods. It is important to note, however, that because of the change in variables, a direct comparison of the two studies is impossible. Nonetheless, the Urban Institute is able to conclude that "the strategic shift [from 24 to 30] stable neighborhoods supports the conclusion that CWAC neighborhoods are making substantial strides in community quality of life.[33]" The results of the studies are shown in Table 2.

In 2000, the fragile neighborhoods formed a semi-circle radiating northeast, northwest, and southwest from the city's core. Threatened neighborhoods extended out from these fragile neighborhoods, and stable areas encompassed most of the study area's outermost rings and the majority of the southeastern corner. The three downtown neighborhoods (First, Third and Fourth Wards) were also ranked as stable. These results typify the pattern of many central cities: a healthy downtown ringed by highly distressed – or fragile – neighborhoods, which in turn are surrounded by healthier, more stable areas.

The CWAC initiative demonstrates Charlotte's commitment to improving the social, physical, and economic well being of its urban core. Its emphasis on community involvement and empowerment is admirable, as is its dedication to tracking neighborhood changes over time through the Quality of Life Studies. The City Council's strategic plan for the initiative is well documented with objectives and measurable benchmarks. For example, under the "business district revitalization" objective, the Council set goals such as "approval of Westover Shopping Center Development" and "Creation of economic development plans for three CWAC retail developments.[34]" However, the Quality of Life Study is not yet sufficient to evaluate the initiative's success. With future studies, it will be possible to compare results over time, and it will be more apparent whether the program is succeeding in its attempt to increase the number of stable neighborhoods.

The CWAC Equity Loan Program: Description

The CWAC Equity Loan Program is one of several programs specifically designed to meet the needs of the CWAC area. It is managed by the

Economic Dimension (10%)	**Physical Dimension (30%)**
Change in Income (%)	Appearance Index
Social Dimension (30%)	Substandard Housing (%)
Persons Receiving Food Stamps (%)	Homeowners (%)
Persons over Age 64 (%)	Projected Infrastructure Improvement Costs
Average Kindergarten Score	Persons with Access to Public Transportation (%)
Dropout Rate	Persons with Access to Basic Retail (%)
Children Passing Competency Exams (%)	Pedestrian Friendliness Index
Births to Adolescents (%)	**Crime Dimension (30%)**
Youth Opportunity Index	Violent Crime Rate
Number of Neighborhood Organizations	Juvenile Crime Rate
	Property Crime Rate
	Crime Hot Spots

Source: Charlotte Neighborhood Quality of Life Study, Table 1. UNC-Charlotte Urban Institute, July 2000.

***Table 1:** Quality of Life StudyIndex Variables and Weights*

	Number of NSAs			
	Stable	Threatened	Fragile	Total
1997:				
Inside CWAC	24	34	15	73
2000:				
Inside CWAC	30	32	11	73
2000:				
Inside and Outside CWAC	99	44	30	173

Source: Charlotte Neighborhood Quality of Life Study. UNC-Charlotte Urban Institute, July 2000.

Table 2: *Neighborhood Ranking Results, 1997 and 2000 Quality of Life Studies*

Business Services Officer in the City of Charlotte's Neighborhood Development Department. The program is one of the City's ten business financial assistance programs.

The seeds for the equity loan program were sown in August 1990 when Mayor Sue Myrick established the West Side Economic Development Task Force to help promote small businesses on the city's west side. Meeting with local lenders in November 1990, the Task Force and local banks recognized that lack of capital/equity was preventing inner-city entrepreneurs from obtaining traditional loans. To meet this need, the City of Charlotte's Community Development Department established the CWAC Equity Loan Program, and expanded its geography from the West Side to include the entire 60-square mile area covered by the CWAC initiative. The City Council approved the program in October 1991, appropriating $1.3 million in City funds from a former Urban Development Action Grant. Eight banks pledged $6.5 million in additional funds. The program began operations on January 1, 1992.

Initially, the City described the program as one designed to create jobs, primarily for low- and moderate-income individuals. Today, the program has four goals:

- To stimulate small business investments in targeted areas.
- To provide low-wealth people access to capital for business start-ups and expansions.
- To create new service and retail businesses to support targeted neighborhoods.
- To create jobs for low- to moderate-income people living in CWAC.

The combination of these four goals is key to the program; the first three focus on neighborhood and entrepreneurial development, while the last emphasizes the expansion of opportunities for others in the area. Together, they seek to address the needs of residents, business owners, and other members of these distressed communities.

How the Program Works

Under the program, the City loans the borrower the equity portion of a loan (up to 20 percent of the total loan), and a participating bank provides the remaining 80 percent. The City loan is deferred, with no interest, for a maximum of 10 years, after which interest begins to accrue and repayments begin. Given the time value of money, the zero percent deferment period essentially renders the loan a grant. While the City eventually recoups its money, it forgoes the interest that it would have earned during the deferment period.

When possible, borrowers are expected to commit any available equity funds to the project. For example, if the total project costs for Business A were estimated at $105,000, and the business owner chose to borrow $100,000, then a bank would commit 80 percent of the total loan ($80,000), and the City would commit 20 percent ($20,000). The business owner would pay the remaining $5,000 in personal equity.

Regardless of the dollar amount, the key point is that the maximum allowable City contribution is 20 percent of the total financed portion of the project. However, because the program is based on the recognition that equity is often unavailable, there is no minimum equity requirement, meaning that a business owner could finance 100 percent of the project's costs. Despite this provision, the City and lender typically request a minimum equity contribution of five percent.

The terms of the loans (as of January 2001) are as follows:

Total Loan

- The minimum total loan amount is $15,000.

City Loan

- The City loan is subordinated to the bank loan. The City loan repayment is deferred for five years, with the option to renew up to an additional five years if the borrower's debt coverage ratio exceeds the lender's guidelines. Repayment to the City begins after the entire bank loan has been paid off, or after the deferment period ends, whichever comes first.
- Interest does not accrue on the City loan until repayments begin; at that point, the market interest rate is charged. However, if borrowers fail to provide information as required in the loan agreement, a market interest rate may be charged during the deferment period.
- City loans are structured so that when repayments begin, the monthly payment equals the monthly payment on the bank loan. As such, the term of the City loan varies.
- Lifetime limits on City loans are $100,000 for non-manufacturing businesses and $150,000 for manufacturing businesses.
- For every $10,000 of City funds borrowed, the business must create one job for low- or moderate-income people living in the CWAC area.
- Loans exceeding $50,000 must be approved by the City Manager or designee; loans over $100,000 must be approved by the City Council.
- Loans involving the acquisition of real estate must demonstrate that the acquisition is required for the viability of the business or for the creation of jobs.

Bank Loan

- Banks approve or deny loan applications using standard underwriting criteria. In the event that the equity cash is unavailable, and is the only thing preventing an applicant from obtaining the loan, the bank issues its loan commitment letter with a contingency that the City will provide the additional equity needed in the form of a deferred loan. This is then forwarded to the City, along with the borrower's personal financial statement, at which time the City processes the request.
- The interest rate cannot exceed prime plus 2 percent.
- Bank loans range from two to ten years. If the lender's terms exceed ten years, the City's loan comes due in year ten.
- The bank loan must cover at least 80 percent of the total project cost. The typical bank loan is four times the amount of the City loan.

This structure is an innovative means of fostering business development among entrepreneurs who otherwise would not be able to finance their businesses. By subordinating its lien position to private lenders, the City assumes a high degree of risk. If the program is successful, all City money will be repaid, and banks gain a greater understanding of inner-city areas, a heightened interest in lending to these neighborhoods, and more extensive contact with inner-city entrepreneurs.

Loan Process

Originally, when each participating bank committed money to the loan program, the City would allocate $1 for each $4 committed by the bank. These funds were then available to each bank separately. This system soon became cumbersome, as some banks used their allocated funds quickly while funds reserved for other banks were left untouched and funds could not be easily moved. Today, the program has been streamlined to increase efficiency: the City has established one program fund from which it lends. The City has budgeted approximately $1 million annually for the loan program, which comes from its general fund.

The first steps are key to the loan process. Applicants first approach a participating lender to apply for a loan. Often, the City has referred applicants to a particular lending institution. The lender, using standard underwriting criteria, determines if the applicant is a candidate for the program. According to lenders from two banks active with the program, it is often the geographic location of the business which triggers the lender's decision to consider the CWAC program.[35] If the applicant meets all of the bank's underwriting criteria except for the required equity, the bank requests funds from the City, which verifies the applicant's eligibility. If all eligibility guidelines are met and no other source of equity is available, the application will most likely be approved. Once approved, the loan closing process begins, both with the City and the bank. After closing, City and bank funds are disbursed and bank repayments begin.

The process is relatively straightforward and requires little paperwork on the part of the borrower or the lender. When asked about the program, both lenders agreed that the process was easy, and one commented immediately that the process is especially simple compared to the complexity of the SBA's 7a and 504 loan programs.

Eligibility Requirements and Recent Changes

In order to successfully target the equity loan program, the City of Charlotte has instituted eligibility requirements, dictating where businesses can be located, what types of businesses are allowed, and business owners' maximum net worth. Over time, these requirements have changed, according to the needs and performance of the program.

The geographic boundaries and net worth cap are crucial components of the program's ability to reach its target population. For a program with intentions of spurring inner-city development, limiting eligible businesses to designated areas is obviously an important requirement. Also, because net worth is a more effective measure of wealth than income (as discussed in Section I), a net worth cap will ensure that targeted low-wealth entrepreneurs can make use of this program.

In addition to revisions in the eligibility requirements, the City Council also approved changes to the loan terms in January 2001. These changes are:

- Increasing the maximum bank interest rate from prime plus 1 percent to prime plus 2 percent.
- Reducing the maximum deferral period from ten years to five years, with the option to renew up to five additional years based on the lender's request (for non-SBA participating loans only)
- Permitting City loans to convert from zero percent interest during the deferral period to a market interest rate when the borrower fails to provide information required under the loan agreement.

These changes reflect three major issues: changes in the lending climate, problems with the program's original structure, and the politics involved with the program. First, in terms of lending climate, the recent drop in prime interest rates has meant lower profits for lenders; increasing the minimum bank loan interest rate from prime plus one percent to prime plus two percent increases the profit for banks. The City does not anticipate that this will significantly affect loan volume or performance. Second, in terms of program structure, the program manager stated that most

lenders required loan reviews after five years, even for loans with 10- to 15-year terms. During these reviews, it was clear that many of the businesses had been very successful, and could afford after five years to pay off both their bank and City loans. However, with the deferred interest on the City loan, there was little incentive to do this. The reduction in the deferral period addresses this conflict.

Third, the program's job creation requirements have caused problems from the beginning. In one interview, a borrower complained that the job creation requirement was the most limiting and challenging part of the program. Over the course of one year, this borrower hired thirty different workers, and finally decided to hire her mother to help in her seafood market.[36] Struggling to retain staff, she felt pressured by the program's job creation requirement. From the City's perspective, getting the borrowers to annually report job creation data has been equally frustrating. Recognizing that there was no penalty for failing to report job creation data to the City, and therefore little incentive for borrowers to do so, the City added a provision to the program enabling it to charge a market interest rate during the deferment period as a penalty. It should be noted, however, that the City recognizes the frustrations of the business owners. According to the program manager, "It is not a question of actual performance as long as the borrower demonstrates a good faith effort to comply with the job creation requirement. We recognize that business conditions sometimes necessitate changes that will affect earlier projections to create jobs.[37]"

Fourth, the changes to the program's geographic focus also reflect problems with the original structure, as well as an expansion of the City's geographic target areas. Originally, the loan program required only that the business hired residents of the CWAC area, but did not require the business to be located within the CWAC boundaries. However, from the beginning it was evident that this requirement was not aligned with the City's other neighborhood and commercial revitalization programs designed to encourage reinvestment in CWAC. Therefore, in 1998 the guidelines were changed to require that businesses be located in targeted business districts. The expansion of the eligible boundaries to include the Eastside Strategy Plan, the Local Investment Zone, and Morehead Street reflect changing priorities of the City. The CWAC loan program's ability to adapt to other City goals is an important component of its ability to succeed as part of the larger CWAC initiative.

The CWAC Equity Loan Program: Analysis

A rigorous evaluation of the Charlotte program is beyond the scope of this paper for two reasons. First, the loan program does not work in isolation. The CWAC loan program is part of the City's larger CWAC initiative, so targeted neighborhoods have received many types of development, infrastructure and safety improvements, education and job training, and other assistance. Also, the CWAC loan program is only one of many small business loan programs available to entrepreneurs in the Charlotte area. Multiple causality therefore limits the possibility of isolating the equity loan program's effects.

Second, there is no control group to which the affected neighborhoods and businesses can be compared. Without this, it is difficult to attribute any changes in the targeted areas to the loan program. The UNC-Charlotte Urban Institute's Quality of Life Study may help in this regard. It may be possible to track changes in the status of the neighborhoods where equity loan borrowers are located – for example, to monitor how many neighborhoods change from threatened to stable over time. Subsequent regression analysis might suggest a causal link between equity procurement and neighborhood improvement.

Despite these two factors, an informal analysis of the CWAC loan program can be performed. In this section, I assess the program's performance to date (outcome analysis) and activity level to achieve its goals (process analysis). I also discuss the qualitative effects of two businesses on their neighborhoods (impact analysis).

Outcome Analysis

The CWAC loan program's performance can be assessed based on the following indicators: number, size, and status of loans; types of businesses served, number of jobs created; and extent of geographic targeting. Across most of these indicators, the program ranks high and appears to be successful.

Loan Size and Volume

Despite some fluctuation, the CWAC program has demonstrated excellent loan volume over its eight-year history. From 1992 to 2000, the program made 123 loans. Table 3 summarizes the size of these loans. Over the course of the program, the smallest deal was $12,000 (an exception to the $15,000 minimum deal size rule) and the largest was $970,000.

The program averages 14 loans per year. In 1993, 1994 and 1996, the program averaged 16 loans; it made fewer loans in 1995 as the program underwent structural changes, imposed a moratorium, and revised its marketing strategy. In 1997, 11 loans were made, and the following year the program made 25 loans, the largest amount in any one year. In 1999 and 2000, the program made nine loans (see Figure 1). In the first four months of 2001, the program has approved nine loans totaling $400,000, putting the program on track to reach its goal of $1 million for the year.

In the program's first year, it made only four loans, totaling $223,500. These loans were made over a five-month period, and represent a reasonable loan volume for a new program. However, the program was criticized for approving only four loans because it had over 1,600 inquiries during that first year (the number of loan denials is unknown).[38] Even more significant, however, is the way in which the program was marketed. Low approval levels suggest either overly stringent underwriting guidelines or an unqualified applicant pool; in Charlotte's case, the first-year applicants were for the most part unqualified and ineligible for the program. Without appropriate targeting and marketing, the lure of the zero percent interest, ten-year deferred loan attracted an overly optimistic and misinformed applicant pool. The *Charlotte Observer* reported the program's low approval rate, and the program got off to a rocky start.[39]

After this initial trouble, however, and after working with lenders to more accurately market the program, loan volume picked up. In its nine years, the program has averaged over 14 loans per year, enough to justify replenishing the City's fund annually with $1 million. The program's progress since 1996 has been promising, with at least nine loans per year.

Loan Status

Over half of the CWAC loans are still current. As Table 4 shows, 71 percent of City loans have not yet been repaid, mostly because of the deferment period. Because the majority of loans have not yet reached the end of their five- or ten-year deferral periods, the question remains as to how successfully the program will recover its loans in the future.

Eleven loans in this program have been written off. According to the program manager, these businesses failed to pay not because of program characteristics, but because of personal reasons, poor management, or market factors. A local private gym, for example, could not compete with larger gyms in the area; the owner of a lighting company suffered from health problems; and a

	City Loans	Bank Loans
Total	$4,044,979	$20,775,160
Mean	$24,850	$104,000
Median	$32,886	$168,904

Table 3: *Size of CWAC Loans*

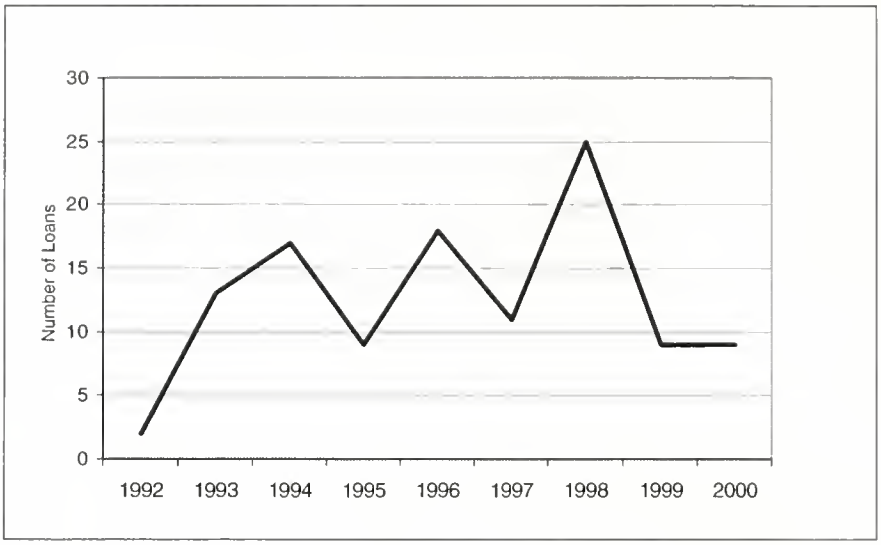

Figure 1. CWAC Equity Loan Volume 1992-2000

transportation company failed to renew its contracts with other service providers. These written-off loans, and the loans with assets under review, account for only six percent of the City's loan funds. While higher than conventional lending programs, this rate is not surprising given the risky nature of the program. Also, this six percent represents a 0.75 percent per year default rate, which is just slightly higher than the industry average (0.5 percent per year).

Businesses Served

Ninety percent of the program's loans have gone to service and retail businesses, despite its provisions allowing larger loans for manufacturing businesses. Day care centers, restaurants, and hairstyle salons have received the most loans, followed by grocery and general retail stores. Other types of businesses include automotive services, dry cleaning, office supply and professional services, manufacturing, and recycling. This mix of businesses is encouraging, as there is an inadequate variety of goods and services in many of Charlotte's neighborhoods. From the New Markets and ICIC studies discussed in Section I, it is clear that inner cities nationwide could benefit from a program enabling this extent of retail and service provision. However, manufacturing and industrial jobs are often needed to spur intense economic revitalization of an area (through higher wages and the multiplier effect). To the extent that the CWAC program aims to provide needed goods and services, then, it accomplishes its goal. And by providing local, small-scale retail businesses,

Status	Number (Percent) of Loans	City Funds	Percent of City Funds
Current	87 (71%)	$3,359,881	83%
Paid Off	21 (17%)	$424,543	11%
Written Off	11 (9%)	$204,985	5%
Assets in Review	4 (3%)	$55,570	1%
Total	123 (100%)	$4,044,979	100%

Table 4: Status of City Loans

it lessens dislocation pressures. The drawback is that the job potential of the neighborhood may be limited.

The CWAC program makes loans to both new and existing companies. While the breakdown of loans to new versus existing companies for the entire CWAC program is not readily available, an analysis of 22 Self-Help loans reveals that nine loans went to start-ups, ten went to existing companies, and three were used for the acquisition of other businesses. The program's commitment to new businesses, at least as far as the Self-Help analysis indicates, is promising. Business start-up is especially difficult without personal equity, and it appears that the program has helped entrepreneurs overcome this barrier. Tracking the number of start-ups for the whole portfolio would be beneficial.

An informal review of the CWAC loan portfolio reveals that two-thirds of all loans have gone to African-American borrowers; 17 percent to white borrowers, and seven percent to Asians, Hispanics, and others.[40] Approximately 40 percent of all loans went to women. Among Self-Help loans, the numbers are similar: 82 percent of loans went to minority-owned businesses and 55 percent to women-owned businesses.[41] (According to the 2000 census, 58.3 percent of the City of Charlotte's population is white.) The program's high percentage of loans to minorities and women suggests that it has succeeded in enabling both the City of Charlotte and area lenders to meet their mission of increasing loans to those borrowers.

Job Creation

Job creation is one of the four major goals of the CWAC loan program. According to the 2000 Job Creation Survey conducted by the City of Charlotte, 66 surveyed businesses created 604 jobs since closing their CWAC equity loans. These businesses received a total of $2,652,097 in City loans, yielding an average of one job for every $4,390. This exceeds the goal of one job per $10,000 of borrowed funds. Twenty-five of the 66 businesses (41 percent) exceeded their job creation requirements.[42]

Compared to the SBA's 503 and 504 loan programs, it appears that the CWAC loan program has performed relatively well in terms of job creation. According to one study of Certified Development Companies receiving SBA 503 and 504 loans, the programs created an average of one job per $8,900 in guaranteed debentures. While this exceeds the SBA's requirement of one job per $35,000, it is lower than the CWAC program's performance level. On the other hand, the study acknowledges that all but one of the surveyed companies did not fully comply with reporting requirements, a problem that many CWAC borrowers also experienced (see below).[43] In sum, the CWAC program's job creation performance on average may exceed the required levels, but it is likely that many of the businesses are unable to sustain the required one job per $10,000 in equity loans.

Geographic Targeting and Neighborhood Development

A preliminary analysis of business location and anecdotal evidence from borrowers suggest that the program has been effective at stimulating business activity and community involvement in some neighborhoods, especially where clusters of businesses congregate. Figure 2 shows macro and micro patterns: while businesses receiving CWAC equity loans are dispersed throughout the City Within A City area, some groups of businesses are found in tight clusters.

The size of the CWAC area (60 square miles) does not encourage intense clustering of revitalization activity, although it does not preclude it. How the program is marketed within the vast territory is the key variable. The large area can help build wider political support for the program, although marshalling that support may require considerable effort. This trade-off between geographic/population coverage and focused growth is one that must be carefully weighed. The equity loan program was a natural fit with Charlotte's larger CWAC initiative, so its large target area is logical. Charlotte's size and population density also warrant a large target area: 60 square

miles may be necessary to capture the average of 14 loans made every year. However, spreading loans all over town decreases the potential for creating intense revitalization in any one area. Other cities would be well advised to consider this question of scale when replicating the program, and to align their equity loan programs with other development initiatives throughout the city. Smaller cities should consider denser target areas, but should recognize that a minimum geographic area is probably necessary to capture a large enough eligible applicant pool.

Process Analysis

The CWAC program can also be analyzed based on how well its design allows it to achieve its goals or to meet its mission. The program's greatest strength in this area is its administrative smoothness and simplicity: borrowers and lenders have been pleased with the ease of working with program staff and paperwork, and have praised the program's management capabilities. Five additional features of the program's structure have been less effective, and limit the program's ability to accomplish its goals: the loan approval process, bank participation, job creation reporting, repayment methods, and monitoring and evaluation mechanisms.

Loan Approval Process

The loan approval process for the CWAC Equity Loan Program is relatively straightforward, but at times becomes hindered by politics. As required by law, City loans exceeding $100,000 require City Council approval. To date, this requirement has affected five percent of CWAC program loans, and has at times made the process unnecessarily political and bureaucratic. The story of the Fun City Amusement Park exemplifies the problems of Charlotte's original loan approval process. John McDonald, the amusement park's major investor, requested a $142,800 City loan through the CWAC program in 1992. After approval by NationsBank, the City Council rejected the loan with a 5-6 vote along party lines. Republicans opposed the loan, claiming that McDonald, already a successful businessman, did not need the interest-free City loan (the program had no net worth cap at the time). Black leaders responded with charges of racism, and a debate ensued over the purpose of the program, how to determine a reasonable public purpose for use of City funds, and how to determine who needs the City financing. Members of the City Council defended their votes, insisting that McDonald could afford traditional financing and citing Fun City's cost overruns as reasons to reject the application.[11] This debate received significant media coverage, diverting attention away from the program's success.

This particular problem would not happen today in Charlotte due to programmatic and political changes. However, any loan requiring approval by an elected body may prove to be politically contentious. While the Charlotte program will not avoid this problem under current North Carolina law, any city replicating this model should ensure that City Councils do not turn into de facto loan credit committees.

Bank Participation

Bank participation, while strong and widespread since the program's inception, has been inconsistent over time. Twenty banks have participated in the program since 1992. Originally, eight banks pledged a total of $6.5 million in loan funds. Some of these original banks have remained active in the program, and bank participation in general has varied over time. Four lenders – Self-Help Credit Union, NationsBank/Bank of America, Centura and First Citizens – have made over half of the loans. Although less active recently, Self-Help has made the highest number of loans (28), twice as many as any other lender.

Consistent bank participation and positive relationships with lenders are important factors for the program's success. According to the program manager, high turnover among bank staff in Charlotte and inconsistent bank participation over time have made it difficult to ensure proper marketing and use of the program. Because the

program partly relies on the banks to recognize eligible applicants and forward applications to the City, loan volume is dependent on active bank involvement. Lenders must be committed to understanding how the program works, and remain informed of any programmatic changes. At the same time, program staff must do their part to facilitate working relationships with bankers. A Credit Officer of Scottish Bank, for example, attested to this need. He praised the CWAC program manager for his ability to effectively communicate the program's goals and needs to bankers, and for maintaining working relationships with the borrowers. This has been key to Scottish Bank's success with the program, the banker said.

Creating Jobs

The City's Job Creation Survey indicated that 66 businesses created 604 jobs. While this performance level is good, as discussed above, the program has experienced problems with its job creation and reporting processes. First, program staff have had difficulty compelling borrowers to report job creation information. Borrowers receive letters requesting job information in the first quarter of every year. Follow-up phone calls and additional letters are often required, but eventually the City receives the requested information from 90 to 100 percent of the businesses.[45] To encourage borrowers to provide this information, the program decided to charge a market interest rate during the loan deferment period in cases where businesses fail to report job creation (and other) data.

Second, the program requires that employees of businesses receiving loans must be low- or moderate-income residents of the CWAC area. This information is difficult to track and verify. It also limits the number of potential employees, and causes problems when employees move from within the CWAC area to another location.

Another problem is that borrowers have had difficulty retaining qualified staff. One borrower was particularly frustrated with the lack of assistance available to her for finding and retaining staff; she recommended that the City provide a follow-up program, or something in addition to the services of the state Employment office. The City maintains that it refers borrowers to the JobLink Center, neighborhood and business associations, or other small business assistance centers as needed, and in general provides whatever assistance it can to help business owners retain jobs.

Because of the difficulty involved with the accurate reporting of job creation, and because job creation is seen as a low priority goal, Self-Help has omitted a job creation requirement from its proposed equity loan program. This is a prudent idea; job creation is a natural result of business formation, but businesses should not be hindered by bureaucratic reporting requirements. On the other hand, job creation is crucial to neighborhood and economic development, and information on the number of jobs and residence of employees is essential for program monitoring and evaluation. Furthermore, the City of Charlotte contends that its annual job survey allows program staff to stay in touch with borrowers, to assist them with hiring, to "learn about other issues the business owner may be facing," and to update information in the program's database.[46] This contact is an invaluable part of the program's ability to monitor its borrowers. However, an annual business review – instead of job reporting – would be an equally effective means of fostering these relationships and obtaining necessary information without causing the problems associated with job creation requirements. As the Charlotte experience has shown, it would also be necessary to institute some level of penalty for businesses failing to participate in the review.

Repayment Methods

As the program is currently structured, loan repayments return to the City's Development & Revitalization Fund (DARF) and as such, the funds may be used for other neighborhood and commercial revitalization activities. While this funding structure allows the City maximum flexibility, it does not establish a revolving source of funds for the loan program. Accordingly, the program is exclusively reliant on separate annual

appropriations. To address this weakness, the Self-Help replicated model proposes that the fund revolve to the maximum extent possible, recognizing that the deferred repayment structure reduces the revolving nature of the fund. This will decrease the need for additional capital infusions, a feature which could be important in cities with less consistent funding than Charlotte.

Monitoring and Evaluation

The CWAC loan program establishes very little in the way of program monitoring and evaluation. It does require that borrowers send annual reports to the City, including such information as the number of jobs created. However, as discussed above, the City has no way to enforce these regulations, and (until recently) has had no means of penalizing non-compliance. Furthermore, the program has no formal mechanism for evaluating or monitoring its own progress; staff periodically review their progress and determine if changes need to be made. The 1998 and 2001 programmatic changes resulted from staff recognizing deficiencies in the program, and bringing them to the City Council for revision.

The program's success to date warrants a more formal monitoring and evaluation system. The first step that must be taken is to establish standards by which to measure the program's progress, and to set more measurable goals and objectives for the future. The only current quantifiable goals, according to the program manager, are 20 loans or $1 million in loans per year, and one job per $10,000 of City loans. It has no goals for gender or race of borrowers, type or location of businesses, or bank participation rates. The program would benefit from setting additional goals, by which it would be able to monitor its impact and progress more effectively. An independent evaluation, perhaps tied to an overall CWAC study, could also be helpful.

Impact Analysis

The third level of analysis involves determining the impact of CWAC businesses on their neighborhoods. Interviews with two borrowers provide preliminary insights into this topic. One borrower, Rita Rondina, used her CWAC equity loan to relocate her silk flower manufacturing business to a larger facility on Charlotte's west side. The building is located across the street from a public housing development, and further down the street is a new strip shopping center with a day care center. The business, Florita Nova, is also located on public bus routes, and is within walking distance of many residences.

Physically, economically, and socially, this business has made a positive impact on its neighborhood. The building, a former pharmaceutical factory, has been cleaned up, with new windows added on the street level. Landscaping and the addition of a large garden on the side of the building greatly enhance the streetscape. In addition, Rondina makes a conscious effort to attract and retain employees who live in the neighborhood. She has succeeded with this in part because of the building's accessibility by bus and foot; many of her employees do not have cars. In addition, the business offers English lessons and day care benefits. Rondina has also formed a relationship with a church next to the business. Florita Nova therefore provides quality jobs and important social services to many of the neighborhood's residents.

As a result of the building's improvements and the company's dedication to its physical surroundings, there has been less crime on the formerly vacant street, according to Rondina. Although the 2000 Quality of Life Study ranked the neighborhood as Fragile, improvements to the public housing buildings across the street and the construction of the new shopping area a few blocks away indicate the beginnings of neighborhood change.[47] While this change is not due entirely to CWAC Equity Loan Program, the business it helped to expand certainly has played a key role. Nonetheless, the impact of the loan program and the relocated business is small; the neighborhood can still benefit from economic and physical improvements beyond the scope of the CWAC program.

The West End Seafood Market is also an

integral part of a revitalizing business district less than three miles north of downtown Charlotte. The market's owner, Bernetta Powell, obtained a CWAC equity loan to start her business in a building formerly occupied by a drug store/restaurant. The building closed in the 1980s and remained vacant, attracting drugs, graffiti and other crime. The City designated the neighborhood as a distressed area, and included it in the CWAC initiative. In 2000, the neighborhood received a Fragile ranking from the Quality of Life Study.[48]

Today, Powell claims her business is having a positive impact on the neighborhood. By providing jobs and a service, the business adds value to the community. Powell also rents out the remaining space in her building to office and retail businesses. Other formerly vacant buildings in the neighborhood have recently reopened. The City has also invested in the area, putting $900,000 into a shopping center located directly across the street from the market, and making over $2 million in infrastructure improvements along Beatties Ford Road. The loan program is therefore an integral part of the City's comprehensive business corridor revitalization program.

While both Florita Nova and the West End Seafood Market have positively contributed to their neighborhoods, the extent of redevelopment activity that is possible as a result of the CWAC loan program is limited. For example, Charlotte's physical form will prevent many of its neighborhoods from achieving the new urbanism principles of revitalization. Wide streets with little connectivity and lack of pedestrian-friendly features, for example, characterize Tryon Street and Beatties Ford Road where Florita Nova and the seafood market are located. These neighborhoods are not the vibrant, walkable communities envisioned by new urbanists or the City's Neighborhood Development Department. Physical and design improvements are needed, which emphasizes how important it is that the CWAC loan program be part of a multi-faceted approach to neighborhood revitalization.

Finally, another significant potential impact of the CWAC loan program is dislocation of residents. As with any program that redevelops an area and raises building and land values, there exists the possibility that current, low-wealth residents will not be able to afford to remain in the area. This threat is palpable in many areas with CWAC businesses. However, the program makes a conscious effort to avoid this by loaning only to low-wealth borrowers, limiting the size of its loans, and requiring that employees who meet the job creation requirements reside within the CWAC area. Therefore, while it is unlikely that the CWAC program alone will cause dislocation of many local residents and businesses, it is important to recognize that the greater redevelopment effort of which it is a part may do so.

Summary

The CWAC Equity Loan Program has been an integral part of Charlotte's neighborhood development efforts since 1992. It has given over 100 borrowers equity loans to start or expand their businesses throughout the CWAC area, which in turn have provided needed goods and services to Charlotte's residents, created jobs, and to a small extent helped revitalize communities. From 1992 to 2000, the program performed quite well. A high percentage of loans went to women and minorities for retail and service businesses. The program's average 14 loans per year were sufficient to give it continued financial and political support. Though most of the loans are still current and the City's ability to recoup its loan funds is still unknown, repayments so far suggest promising trends for the future.

The structure of the program, while unproblematic for the most part, has imposed some limits on the program's effectiveness. The loan approval process has the potential to make the program unnecessarily political, job creation requirements are difficult to document and enforce, the loan repayment structure makes the program overly dependent on annual City appropriations, and the program lacks a formal monitoring and evaluation system.

On the other hand, widespread bank participation and positive working relationships with

bankers have helped the program succeed. Importantly, the high quality of the program's internal management and the straightforward process for borrowers and lenders to use the program have significantly contributed to its effectiveness. While the CWAC loan program could benefit from some structural changes, its performance to date is encouraging. For this reason, Self-Help believes the program can also successfully help entrepreneurs in other North Carolina cities obtain access to equity capital. I now turn to Self-Help's replication effort and my recommendations for bringing the program to other cities.

III. Replication

Self-Help has been actively pursuing the replication of the CWAC Equity Loan Program since September 1999. Recognizing the potential for the program to stimulate redevelopment in North Carolina's cities, and the potential to increase its own loan volume, Self-Help staff surveyed its CWAC loan activity in Charlotte, met with Charlotte program staff, and began to consider replicating the program around the state. Using its branch offices in Asheville, Greensboro, Greenville, and Wilmington as guides, Self-Help identified the cities with the most need and the most potential for success. Today, the effort is focused on Greensboro, where plans for a pilot program are underway.

The proposed Greensboro program eliminates the City as manager of the loan fund, but keeps City staff closely involved with program design, geographic targeting, and other programmatic decisions. In place of the City, an independent or quasi-public agency would serve as the loan fund manager, with a steering committee to design and supervise the program.

In this model, Self-Help would be in a unique position to serve as a participating lender, a member of the steering committee, and as the loan servicing and closing agency. This arrangement may involve a conflict of interest for Self-Help, and could potentially put other banks at a disadvantage. To ensure that all lenders have an equal opportunity to make loans, a referral system would be established whereby applicants would be referred equally to Self-Help and other participating lenders.

The Self-Help replication effort serves as a guide for others seeking to adopt the Charlotte program. Replication depends on good timing, community interest, availability of partners and funding, and political support. Even with a good model, Self-Help's experience shows that replication efforts will confront hurdles. In the sections that follow, I discuss the four primary steps Self-Help took when considering the program – surveying potential cities, identifying key players, developing a budget, and modifying the program's structure – and offer recommendations for keys to a successful equity loan program.

Surveying Potential Cities

One of the first crucial steps Self-Help took to begin the process of replicating the CWAC program was to identify cities where the program would likely be successful. By nature, the program will be different wherever it is implemented, so it is important to identify the location before finalizing the program's details. The criteria for an appropriate city, determined largely though Self-Help's experience in Charlotte and its lending and policy experience in general, include (1) demand for the program, (2) a political culture open to the idea of the program, and (3) a network of organizations – including Self-Help staff, community and economic developers, local government staff, and non-profits – with the capacity and desire to initiate the program. For Self-Help, the logical places to start were North Carolina's largest cities, where Self-Help has branch locations: Asheville, Greensboro, Raleigh, Durham, Fayetteville, and Wilmington. (Northeastern North Carolina has also been considered for a rural version of the program.)

Visits to these cities and conversations with the key players revealed that Greensboro was the most feasible place to seriously consider the

program. The findings in other cities show how important it is that all three location criteria be met. In Asheville, the community is focused on the need for affordable housing rather than the need for additional small business lending tools. In Wilmington, while the need exists and a variety of organizations were enthusiastic about the program and identified potential funds, the City's community development department was in the process of hiring a new executive director and therefore lacked the capacity to help plan and implement the program. Finally, Raleigh, Durham, and Fayetteville (together served by one Self-Help branch) each show a need for access to equity capital and the potential for adequate staff and resources, but may be more politically reluctant to accept such a program. Despite these obstacles, these cities should be explored further as possible locations for the program. Currently, Self-Help is focusing its efforts on Greensboro, where conversations with the key players indicated that the timing was right for pursuing the program there.

After identifying the city, Self-Help's next step was to establish preliminary geographic boundaries, based on poverty, income and other relevant demographic data. In Greensboro, for example, Self-Help mapped the census tracts with poverty rates below 20 percent. These tracts, forming a crescent extending northeast and west from downtown, formed the initial basis for the target area. Other sources that can help identify target areas include state or local development zones, Enterprise Communities or Empowerment Zones, or other geographically defined programs such as Charlotte's City Within A City initiative. Once these preliminary areas have been defined, the boundaries can be finalized through negotiations with key stakeholders, taking into account the available funds, technical capacity, and political needs.

Identifying Key Players

In conjunction with determining the city and the target area, Self-Help identified the necessary players to be involved with designing, funding, and managing the program. In general, the key players are:

- City staff, likely from the planning, community development or economic development departments;
- Community development corporations (CDCs), non-profit organizations, and foundations;
- Chambers of Commerce;
- Local lenders; and/or
- Small business technical assistance providers

After contacting these entities, Self-Help began to determine the roles and responsibilities for each. In Greensboro, the proposed equity loan fund involves six key players, each with separate tasks. The first, a steering committee, is an informal group similar to an advisory board, and includes members from multiple organizations (banks, City government, non-profit organizations, and Self-Help). The second, a Business Services Representative, is responsible for the program's administrative tasks and would most likely be a staff member of the third organization, the loan pool fiscal agent. This agent is an independent organization such as the Chamber of Commerce or other local economic development entity. Fourth, technical assistance (TA) providers are needed to help entrepreneurs write business plans and complete loan applications. TA providers can be entities such as North Carolina's Small Business Technology and Development Center, a small business incubator, local planning departments, or the Chamber of Commerce. The fifth key player is a loan closing and servicing agency. Finally, participating banks are obviously a crucial component of the program. Below are the recommended tasks for each player.

1. Steering Committee
- Assigns and monitors roles
- Drafts written guidelines for loan fund use (e.g., minimum loan amount, net worth requirements, etc.)
- Approves or denies Bank request for program funding
- Has authority to set or change policy
- Acquires funds
- Oversees capital and operating budget
- Evaluates program, reports findings

- Ensures involvement/representation of necessary stakeholders, including low-wealth advocates
- Sets appropriate expectation for loan volume
- Coordinates with entrepreneurial training and real estate development
- Conducts and/or supervises outreach

2. Business Services Representative
- Reviews eligibility checklist
- Coordinates with/participates in bank interactions
- Manages borrower reporting requirements

3. Loan Pool Fiscal Agent
- Maintains loan pool account
- Authorizes loan pool transactions
- Is signatory on loan documents

4. TA Providers/Small Business Assistance Centers
- Provide TA to borrower during loan process and after closing

5. Loan Closing and Servicing Agency (can also serve as a participating bank)
- Closes, services, and records loans
- Prepares program commitment letter

6. Participating Banks
- Promote program availability internally
- Use standard underwriting criteria when considering borrowers
- Coordinate with Business Services Representative
- Provide data for program evaluation
- Assist with outreach, where applicable

Developing a Budget

The next step in establishing the program is to create a preliminary budget and identify funding sources. Using Charlotte's program as a guide, Self-Help created a ten-year capital and operating budget for the Greensboro program, assuming it would make three to four loans per year. The capital budget projected an average of $53,500 in annual loans, and would require on average $43,500 per year in grants. These figures are based on the assumption that half of the loans made in years one through five will be repaid at a ten percent annual interest rate beginning in year six. On the operating budget side, Self-Help estimates $300 per month in marketing and administrative costs, $15 per month in servicing costs for each loan, and a one-time $250 expense for the approval and disbursement of each loan. Operating revenues would come from a one percent origination fee on each loan, and periodic operating grants.

Once the budget needs are known, the next step is to identify funding sources. Potential sources of funds include the City, the Chamber of Commerce, foundations, government entities, and banks. In Charlotte, the CWAC program was originally funded with a former Urban Development Action Grant. In Greensboro, Self-Help is considering financial support from the City, a local foundation, a CDC, and banks. City funding gives the program political support and helps promote the program's mission of revitalizing the city's neighborhoods. However, it is often subject to additional laws such as North Carolina's requirement that City loan money be approved by the City Council. Foundation and CDC funds are usually more flexible, and for this program are an appropriate means of targeting money to specific neighborhoods in order to help meet the organizations' missions. Bank funding will in most cases be pledged primarily as a means for the banks to fulfill their CRA requirements, as discussed in Section I of this report. An important question regarding this funding source is whether to require banks to contribute money in order to make loans through the program. Where funding is inadequate, or where competition for program participation is high, this requirement would likely be beneficial.

Modifying the Program's Structure

The fourth critical step in establishing the program is to modify the CWAC structure to meet the needs and conditions of the new city. Each new location must tailor the basic loan terms, eligibility criteria, and policy guidelines to fit its needs. Before finalizing the details, the program's

designers can decide the basic terms, such as loan deferral period and maximum loan amount. For example, the Greensboro model proposes a ten-year deferral period, a $250,000 net worth cap, and no job creation requirements. This preliminary structure can be used as a marketing tool to gain financial and political support for the program. Eventually, the steering committee will resolve the details of the program's structure with input from other key players.

Another step in tailoring the program to the needs of each city is to determine the relationship between the key players and the process by which funds will flow through the program. Both of these factors will vary from city to city, depending on local conditions. For example, program funds in Charlotte flow from the City's general fund to the program to the borrowers, and then return to the general fund. The City runs the program, and maintains relationships with banks and technical assistance providers. The Greensboro model proposes that loan repayments return directly to the program loan pool, and establishes a non-City steering committee to oversee the program. Without tailoring the CWAC model to the lending environment of each city, a replicated equity loan program will not successfully meet the needs of its entrepreneurs or the city as a whole.

Next Steps

After identifying the city, key players, funding sources and determining the program's structure, Self-Help's next steps to establishing the program will be to convene the steering committee and finalize the details of the program. After that, it plans to obtain commitments from banks, market the program and eventually begin making loans. These general steps can also be taken by other organizations seeking to develop a similar equity loan program.

Recommendations

Self-Help's replication effort is one of many ways to bring Charlotte's program to other North Carolina cities. The steps it has taken and the policies that have guided it are unique to Self-Help, but they provide a basis for some general recommendations for a successful equity loan fund. To be successful, a replicated version of the CWAC Equity Loan Program must adapt to the specific circumstances of the city in which it is instituted – its political and institutional climate; any existing programs; the availability of funding, physical space, and infrastructure; its land use patterns; and the economy. Therefore, depending on the timing, location, and organization establishing the program, each program will be different.

The following recommendations can be applied to any city, but are based in large part on Self-Help's experience in Charlotte and Greensboro. They represent lessons learned over the course of Self-Help's effort to redefine and recreate a program it believes will effectively facilitate small business development in distressed urban business districts through the provision of equity capital.

Recommendations for Program Structure and Administration

- **Combine the loan program with other city-wide redevelopment initiatives.** An isolated business development/loan program will not improve the physical environment of a neighborhood, the quality of available retail services, or the chance for low-wealth entrepreneurial activity.
- **To avoid politicizing the loan program, ensure that the loan approval process does not require approval of individual loans by elected bodies.** Charlotte's program received negative media coverage in its early days when the City Council, subject to state law, was charged with approving large loans. It is preferable for an independent professional staff to make loan decisions.
- **Allow loan repayments to recycle back into the equity pool.** This will help the program become more self-sustaining.
- **Set early expectations low.** Do not market the program as a way for any

low-income individual to obtain a loan. Emphasize that standard underwriting criteria will still be used.

- **Maintain positive working relationships with lenders.** The program requires strong bank participation, and relies on lenders to identify potential borrowers. Lenders must understand how the program works, recognize eligible applicants, and work closely and consistently with program staff.
- **Establish goals or benchmarks for program review and monitoring.** It is important to get feedback from borrowers, to conduct periodic independent reviews, and to perform process, outcome and impact evaluations.

Recommendations for Eligibility Requirements

- **Job creation should be seen as a benefit, but not a main goal, of the program.** Job creation is hard to document and verify, and setting goals such as one job per $10,000 is probably unrealistic. It is better to focus on the other important goals of the program, such as improved access to wealth and business development.
- **Require business owners to participate in annual business reviews, and institute a penalty for those who do not.** Information gathered in annual reviews is key to program and business monitoring; it is important to experiment to find the best method for conducting these reviews. Be respectful of business owners' time.
- **Include net worth limit to effectively target a low-wealth population.** The net worth cap is a more effective measure of wealth than income.

Recommendations for Program Geography

- **If possible, start with a small target area.** Spreading loans out all over town will not foster synergy from clusters of businesses. Targeting the program to a small, select area will emphasize the program's geographic focus. Incentives could be included to encourage loans to businesses located near existing program borrowers or desired locations (business districts).
- **Identify a minimum size target area.** While the target area should not be too large, it cannot be so small that the program is unable to make enough loans. It also must be large enough to garner sufficient political support. The program must expand beyond downtown or the area covered by one CDC.
- **Support geographic boundary decisions with census or other data.** Politics and the interests of neighborhood advocacy groups may influence the program's target locations. To make a more objective decision, identify poverty, income, or other variables that characterize the selected area.

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[15] Yochi J. Dreazen, "U.S. Racial Wealth Gap Remains Huge," *The Wall Street Journal* 14 March 2000: A2. Wealth defined as "the value of all assets, including homes, cars, stocks and savings accounts."

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[17] See Oliver and Shapiro, and Sherraden.

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